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CORPORATE PARTICIPANTS

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

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

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

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

CONFERENCE CALL PARTICIPANTS

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

David Jon Leiker *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

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

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

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

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

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

Ryan Ronald Sigdahl *Craig-Hallum Capital Group LLC, Research Division - Senior Research Analyst*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Gentex reports the fourth quarter 2019 and year-end financial results. (Operator Instructions)

I would now like to introduce your host for this conference call to Josh O'Berski. You may begin.

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

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

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This conference call contains forward-looking information within the meaning of the Gentex safe harbor statement included in the Gentex reports fourth quarter and year-end 2019 financial results press release from earlier this morning and as always shown on the Gentex website. Your participation in this conference call implies consent to these terms.

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

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

Thank you, Josh. For the fourth quarter of 2019, the company reported net sales of $443.8 million, a decrease of 2% compared to net sales of $453.4 million in the fourth quarter of 2018. The decrease in revenue on a quarter-over-quarter basis was due in large part to the strike at General Motors, which negatively impacted sales in the quarter by approximately 5%. In addition to the strike creating headwinds that impacted the North American market, the rest of the world light-vehicle production declined 5% on a quarter-over-quarter basis when compared to the fourth quarter of 2018. A 6% decline in Europe and a 10% production decline in the Japan and Korea market quarter-over-quarter more than offset the modest improvement in the China market versus the fourth quarter of 2018.

The fourth quarter has always been difficult to forecast because of inventory adjustments at our customers that often occur at year-end. But in 2019, we were also estimating the impact that the strike would have on revenue and profitability for the quarter. Throughout the year, we continued to experience exceptional growth of our Full Display Mirror product, especially with our launch customer, General Motors. By the end of the year, GM had become one of our larger customers in 2019, which means we were disproportionately impacted by the strike. For the quarter, revenue ended down 2%, but we lost approximately 5% in the revenue due to the strike. In essence, if the strike had not happened, revenue would have been up 3% for the quarter. In terms of light-vehicle production, global volumes were down over 5% for the quarter. But even if you remove the impact of the strike from those numbers, then global production was still down over 4% in Q4 versus last year.

This put our outperformance to market for the quarter at 7%. For calendar year 2019, net sales increased 1% to $1.86 billion compared to $1.83 billion for calendar year 2018. Our initial sales forecast for 2019 was based on a global light-vehicle production forecast that assumed an approximate growth rate of 1%. However, the actual global vehicle production rates for calendar year 2019 were down 6%, which correlates to our very strong outperformance to market of 7% for the year. The gross margin in the fourth quarter of 2019 was 36.5% compared with a gross margin of 37.9% in the fourth quarter of 2018. The impact of the strike at General Motors caused margin headwinds of approximately 125 basis points due to the lower revenue and the resulting lost profitability during the quarter, in addition to our inability to leverage fixed overhead costs due to the lower sales.

The gross margin during the quarter was also negatively impacted by approximately 30 basis points of incremental tariffs when compared to the fourth quarter of 2018. The fourth quarter change in gross margin was driven by these 2 distinct situations of the strike and escalating tariff costs that negatively impacted gross margins by 155 basis points in the quarter. Aside from these 2 issues, the overall gross margin would have been slightly better than last year. For calendar year 2019, the gross margin was 37% compared with a gross margin of 37.6% for calendar year 2018. The gross margin for the year was negatively impacted by approximately 70 basis points from tariffs versus 2018. Other factors that impacted the gross margin during the year included the company's inability to leverage fixed overhead costs on the lower-than-expected sales levels and annual customer price reductions that were not fully offset by purchasing cost reductions. Considering a very challenging global light-vehicle production markets, the strike and the fact that we were still dealing with some of our own product-related headwinds in 2019, the team has done an excellent job of maintaining a consistent gross margin from 2018. All of our teams have been focused on offsetting annual customer price reductions, addressing incremental tariff costs and finding ways to minimize the impact of fixed overhead pressures given the lower sales levels. The primary areas that help bring about this improvement were better-than-expected purchasing cost reductions, improved manufacturing efficiencies, design changes that led to cost improvements and the success of our Full Display Mirror.

As we look back and compare this year to 2018, one thing is very clear, if not for the incremental tariff costs in 2019, our gross margin would have been slightly higher than it was in 2018. Operating expenses during the fourth quarter of 2019 were up 9% to $50.9 million when compared to operating expenses of $46.5 million in the fourth quarter of 2018. For calendar year 2019, operating expenses were $199.8 million, up 10% compared to $182.3 million in calendar year 2018, which is in line with the company's original estimates for the year.

Net income for the fourth quarter of 2019 was $99.5 million compared to net income of $106.3 million in the fourth quarter of 2018, primarily driven by the reduction in revenue as a result of the strike during the fourth quarter. Net income for calendar year 2019 was $424.7 million, down 3% compared with net income of $437.9 million in the calendar year '18, primarily driven by lower vehicle production levels, increases in tariffs and the impact of the strike. Earnings per diluted share in the fourth quarter of 2019 were $0.39 compared with earnings per diluted share of $0.41 in the fourth quarter of 2018. For calendar year 2019, earnings per diluted share were $1.66, which was a 2% increase year-over-year compared with $1.62 for calendar year 2018.

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

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

Thank you, Steve. Auto-dimming mirror unit shipments increased 3% in the fourth quarter of 2019 compared with the fourth quarter of 2018 and also increased 3% for calendar year 2019 when compared to calendar year '18. Automotive net sales in the fourth quarter of 2019 were $433.8 million, down 2% compared with $442.8 million in the fourth quarter of 2018. And for calendar year 2019 were $1.81 billion, up 1% compared with $1.79 billion in calendar '18. Other net sales were $10 million in the fourth quarter of 2019, down 6% compared with $10.6 million in the fourth quarter of '18. And for calendar year '19, we're up 13% to $48.4 million when compared with $42.9 million in calendar '18.

Now for a balance sheet update. The following balance sheet items represent a comparison versus December 31 of '18, which are also included in today's press release. Cash and cash equivalents were $296.3 million, up from $217 million, primarily due to cash flow from operations and proceeds from stock option activity, which was partially offset by share repurchases, dividend payments and capital expenditures. Short-term investments were $140.4 million, down from $169.4 million due to investment maturities and long-term investments were $139.9 million, up slightly from $138 million. Accounts receivable was $235.4 million, up from $213.5 million, primarily due to the timing of sales in the quarter. Inventories were $248.9 million, up from $225.3 million, primarily as a result of increased raw material inventory. Increases in raw materials are to support first quarter 2020 production and sales forecast as well as higher levels of component inventory with longer lead times. And accounts payable increased to $97.6 million from $92.8 million. Quickly for some cash flow highlights. The fourth quarter 2019 cash flow from operations was $122 million, down from $154.2 million in the fourth quarter of '18, driven by lower net income for the fourth quarter as a result of the strike as well as working capital fluctuations. And for calendar year 2019, cash flow from operations was $506 million versus $552.4 million for 2018, primarily driven by decreases in net income and changes in working capital.

Capital expenditures for the fourth quarter of 2019 were $26.8 million compared with $17.2 million for the fourth quarter of '18. And for calendar year 2019, capital expenditures were $84.6 million, which finished below our original estimates of $90 million to $100 million and compared with $86 million for calendar year '18. And depreciation and amortization for the fourth quarter of 2019 was $25.3 million compared with $21.4 million in the fourth quarter of '18. And for calendar year 2019, depreciation and amortization was $104.7 million compared with $102.2 million for calendar year '18.

Now for some details on share repurchases. The company repurchased 2.4 million shares of its common stock during the fourth quarter of 2019 at an average price of $28.55 per share. And for the year ended December 31, '19, the company repurchased 13.8 million shares of its common stock at an average price of $24.06 per share. When reviewing the share repurchase program as part of our overall capital-allocation strategy, it's important to note that the company maintains a broad-based stock option plan for employees as a key incentive to retain, grow and reward them.

During the fourth quarter, the market cap of the company reached all-time highs, and a result of the stock price movement was an increase in the dilution rate of the options program. The company continues to believe that the share repurchase program that is in place currently not only offsets the impact of the options program for employees, but will also have a meaningful impact in increasing shareholder return. And as of December 31, 2019, the company has 20.1 million shares remaining available for repurchase in the previously announced plan.

I'll now hand the call over to Neil for a products and CES update.

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

Thank you, Kevin. Earlier this month, Gentex displayed at the 2020 consumer electronics show. This show has become our preferred platform for Gentex to showcase our technologies and capabilities. More importantly, this venue and format allows us to gauge our customers' interest in the new ideas and proof of concepts that we display, enabling us to get access to the voice of the customer quickly and with direct feedback. This year at CES was a landmark year in debuting new iterations of existing technology, completely new technology concepts and products and even product design for a new vertical. Our first area of new product concepts was designed to show the evolution of our Full Display Mirror. A functional prototype of a touch screen version of our FDM was on display and included various features, including pinch to zoom, tilt, pan, brightness control and the integration of soft button into the mirror display. In terms of the soft button interface, we showed several different examples of features that could be controlled by the mirror. But as you can imagine, many of the examples centered around HomeLink and HomeLink Connect interface options.

We also introduced new scene enhancement features for our Full Display Mirror products. The first example of scene enhancement included active infrared illumination of the rearward scene to help improve visibility during nighttime driving.

The second software enhancement was a lane and line projection for the FDM to assist with rearward vision by providing orientation and location of other vehicles. This feature also assists the driver or passenger in a semi-autonomous vehicle with better lane awareness and lane-keeping information.

Additionally, we showed for the first time publicly, a digital video recorder system implemented in a mirror. The prototype was shown -- the prototype shown was very similar to an OEM sourced program that we've been in launch with for the past 12 months. This initial product combines the DVR system with our Full Display Mirror and includes the ability to record from both a forward and rearward-facing camera. The system is also designed to include removable memory and is fully designed to meet OEM specifications.

Our next product area of focus was vision systems. The vision systems were shown on 3 separate vehicles to showcase our capabilities to engineer and provide full systems integration in any of the following scenarios: first, traditional auto-dimming mirrors; second is a hybrid camera monitoring system solution that includes auto-dimming outside mirrors with cameras located behind the glass of each outside mirror; and the third camera in the roof, CHMSL or GPS antenna. This system utilizes our Full Display Mirror as the focal point of the digital scenes. This was showcased in our booth on both a Volvo XC90 and an Aston Martin DBS Superleggera.

As announced during CES, we are working with Aston Martin to bring this hybrid CMS solution to future vehicles. The third vision system was a full CMS solution that utilizes cameras on the outside of the vehicle to replace traditional mirrors. Our version of the full CMS solution was deployed on a Cadillac CTS-V in our booth. This system included Gentex designs side-view cameras and exterior pods, 2 interior curved OLED displays and a third camera powering our Full Display Mirror.

Another new proof-of-concept shown at CES was a driver monitoring system that utilized the unique attributes of the mirror location to monitor and alert based on the driver's gaze, location of attention and level of distraction. Our unique location in the mirror also opens the door to incorporate full cabin monitoring solutions in the future. Utilizing our history in smoke-detection systems, we displayed a new product concept that is actually a sold program to a robo-taxi company that will deploy Gentex technology in the form of a cigarette smoke or vaping sensor in an autonomous vehicle. The sensor is located in the HVAC system of the vehicle and is designed to detect and alert the robo-taxi company in the event that a passenger violates the smoking policy in the autonomous vehicle.

Our next focal area was a product offering that took us to a completely new geography of a vehicle as we showcased a new product concept for a B-pillar design. This external B-pillar concept incorporates one or more of the following Gentex technologies: dimmable glass, display technology and cameras or sensors for personal identification. This product was conceptualized for use in an electric vehicle, rideshare vehicle, autonomous vehicle or even a privately owned vehicle to serve as a welcome feature and to provide key information to the driver or passengers.

In terms of dimmable glass, we showed several new concepts for automotive, including enhancement and further development to our sunroofs, new concepts, including driver and passenger side windows, and a prototype windscreen visor concept. We also announced a new aerospace customer. And at the booth, we had a functional window that we partnered with Airbus to develop. This sourcing represents our second aerospace customer and our second program where Gentex will be a Tier 1 supplier.

Our last new technology review was in the new market for Gentex. We utilized our core competencies and partnered with a world leader in medicine, the Mayo Clinic to codevelop a cutting-edge lighting system designed to revolutionize operating room lighting. The system uses intelligence to remove glare from wet surfaces, maximize light on target areas and remove shadows cast from people or obstacles that block the intended path of the lighting system.

In terms of new product innovation and development, CES 2020 was a high watermark for the company in terms of the breadth and depth of the technology offering, and we're excited to see all these products resonate with our customers over the next 2 to 3 years.

I'll now hand the call back over to Steve for 2020 and 2021 guidance and closing remarks.

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

Thanks, Neil. Our forecasted guidance for calendar years 2020 and 2021 are based on the mid-January 2020 IHS market production forecast for light vehicles produced in North America, Europe, Japan, Korea and China. The current IHS market light-vehicle production forecast for these markets is expected to decrease approximately 1% for 2020, with a 1% increase currently forecasted for 2021.

Based on the current 2020 vehicle production forecast, the company estimates that net sales for the calendar year 2020 will be between $1.91 billion and $2 billion. The company also estimates that the gross profit margin for calendar year 2020 will be between 36% and 37%. The gross margin estimate includes approximately $20 million in annual costs as a result of tariffs that were put in place beginning in 2018, and they have continued to increase throughout 2019. The company has worked hard to mitigate the escalation of tariffs by significantly reducing our exposure. However, this still remains a meaningful cost, both on imports of raw materials as well as on products sold into the China market. The company estimates that operating expenses will be between $205 million and $215 million for 2020. We continue to invest heavily in technology as we fund the development of our current product portfolio and create iterations of those products that help keep these products new and attractive to our customers. We have also been investing heavily in the next wave of innovation, many of which were shown for the first time at CES this month and included new products for automotive, aerospace and our newest developments and intelligent medical lighting.

The company currently is estimating its annual effective tax rate to be between 15% and 17% for calendar year 2020. Variation in the tax rate will occur from time to time, and these are driven primarily by the impact of the FDII calculation, R&D tax credits, state tax rates as well as discrete benefits related to stock-based compensation.

Over the last several years, the company has been more disciplined about spending capital appropriately based on the overall business need, the forecast for future growth, economic conditions and upcoming product launches, and we will continue to manage the business in this manner. Based on that, the company estimates that capital expenditures for 2020 will be between $85 million and $95 million, and that depreciation and amortization expense will be between $105 million and $110 million for calendar year 2020. Based on the mid-January 2020 IHS market forecast for light-vehicle production for calendar year 2021, the company currently expects 2021 revenue growth of approximately 3% to 8% above the 2020 revenue estimates.

While the current forecast for global light-vehicle production appears to be stabilizing, it certainly does not provide any tailwinds to our growth rate in 2020 or 2021. Additionally, although there have been some improvements in global trade relations, tariffs still remain on incoming materials and on our exports into the China market, which create headwinds to growth in the domestic China market and to the profitability of many of our products. So while the underlying market conditions continue to be difficult, we are optimistic about our ability to continue the trend of outgrowth versus the market for 2020 and 2021 based on our targeted growth rate of 3% to 8% per year. This growth rate will be driven by increased penetration rates of our core mirror products, continued growth of our Full Display Mirror product and launches of the new integrated toll module product. The company remains committed to investing heavily in new technology in the area of vision systems, connected car and dimmable glass.

As we look back on 2019, the industry will remember a year categorized and defined by global vehicle production declines of over 6%, a strike that caused large disruptions and inefficiencies, trade wars that created product availability concerns and cost pressures. At Gentex, what we will remember is that we found a way to grow despite industry headwinds, that we stabilized our gross margin despite tariffs and supply constraints, that we grew EPS for our shareholders, all while innovating and creating new products at the fastest pace in company history.

We learned a lot during 2019, and we are hopeful that perhaps 2020 will be a slightly better environment to operate in. But regardless of the backdrop, we are confident in our technology offering and the capability of our team to create growth and shareholder returns for years to come. Thank you for your time today, and we can now proceed to questions.

QUESTIONS AND ANSWERS

Operator

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

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

So I just want to focus on CES because you had a lot going on there, showed a lot of new product. And in years past, you've shown kind of revolutionary products, if you will, for the auto space. And then you start to get awards and see those come to market in the following 12 to 18 months. So I'm just wondering, you had the CMS award this year. And then you showed a lot of new things around Full Display Mirror. Could you get in more detail about what the pipeline looks like for some of those automotive-related products and maybe some more detail on timing?

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

Sure. So what was really unique about 2020 CES this year was a lot -- like you mentioned, a lot of times when we showed something at CES, even this year, we did it too. I mean there were 2 products in particular that we showed for the first time publicly, but we already had sourced programs for. And that would then the smoke vape sensor and also the DVR product. So those -- even though they're brand-new products, and we haven't really shown them to a lot of customers, those were actually co-developed with OEMs. So those are already in line and in launch phase. So those should be producing revenue in the next 2 to 3 years. If you look beyond that, and CMS as well is something that we obviously partnered with on Aston Martin but we continue to show full capability in that product lineup. That one we would expect to take a little longer. And the reason why as an OEM has to make a strategic decision about how do they want to execute? Do they want to execute a CMS-type product? And then if so, what does that design phase need to look like? So some of those products are further out, probably 3 to 5 years out before they will generate revenue. Some of them are here now. And then, obviously, some of them, like the new product on the medical lighting side, we think that's a 2- to 3-year development to finish up that development and get it ready for launch.

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

Okay. Great. And then kind of sticking to CES. On the aerospace side, obviously, big win with Airbus, but you also showed some other technologies. And I'm wondering, was that OEM driven? Was there Boeing or Airbus or even a business jet driven decision to go down that product route? Or because you were developing other products for the aerospace market, you said, look, we've got some things we can kind of transfer over there, and now you're going to go to market with those?

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

Yes, there were multiple other technologies that we demonstrated between the smart lighting for beyond the medical, but for aerospace as well as some of the sensing systems. And those are more utilizing some of our core competencies and demonstrating what could be done into that aerospace market. So more driven actually through customer interest and then combining that with our capability. There was the, I'll call it, the 2-way mirror that we also demonstrated, which was a reflective surface, just like our Full Display Mirror that had displays behind it. That was actually an interest from an OEM on -- from an aerospace OEM that we worked with to develop the concept and then our trying to work further to enhance that and get that ready from an award perspective.

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

I think the interesting thing there is what we found with our aerospace customers, once we get down the product path and we're developing our window capability with them, what they start to see is the other things that we do at Gentex. And so there -- the interest wasn't necessarily specific to, hey, show us these products. It was more about we love the fact that Gentex comes in with unique concepts and is somewhat disruptive in the space. So our goal on the aerospace show and then at CES was to show some of those disruptive concepts and then really start to put the technology foot forward beyond just dimmable glass, but into other areas that we're -- we feel we have capabilities in for aerospace.

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

Okay. Great. And then lastly for me, obviously, the mirror shipments for Full Display Mirror in 2019 was well above expectations. Any sense on how that -- any sort of visibility on how that number might evolve over 2021 and 2022 or even 2020 as well?

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

Yes. I think if you look at the last 3 years kind of the growth rate and if you kind of average that growth rate out and then cast that forward, that's kind of what our expectations look like over the next couple of years from a growth rate perspective. We definitely -- this year was a big step up. So we're not saying it's going to be the same number of units. But if you look at that average over 3 years, we think that's a pretty good indication of where it should be in -- over the next 2 to 3 years.

Operator

Our next question comes from James Picariello with KeyBanc.

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

So for FDM, how many nameplates do you expect to be on by the end 2020? And with like how many OEMS? I believe the numbers for 2019 were 5 OEs across 38 nameplates, is that right?

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

That was what we were shipping or estimated.

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

I think over the next -- over 2020, I want to say that we're adding -- we should be shipping on an additional 2? Is it 2 or 3 OEMS we had this year? I think we had 2 or 3 OEMS. This year. And I don't want to guess the number of nameplates, quite frankly, just because I don't have it in front of me.

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

For sure, 3 OEMs.

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

But 2 to 3 OEMs should launch this year. And then obviously, we will see some propagation of additional nameplates, not only on those OEMS, but on our existing OEMs as well.

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

Okay. And if you do give us a unit volume estimate for 2020, we'll just add 200,000 units to that whatever number -- the real forecast.

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

Well, we were joking ahead of the call that what we're going to say about that. And Kevin thought it would be a good idea if I went with my, at least 0.5 million units again.

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

No -- if we just think about like, maybe -- you obviously have your 2020 guidance out. But like just thinking out to 2021, like what's the most reasonable scenario that allows Gentex to really start to deliver margin improvement again? Like what pieces get the company back on track for that to happen?

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

Yes. I think, first and foremost, one of the things we've been fighting through, and we've been talking about quite a bit are the headwinds to our revenue. We had some legacy products that have been causing headwinds on the revenue side. And obviously, that hurts on overall overhead exposure. Stability in vehicle production would be perfect. We don't need massive growth in the number of vehicles produced, but a 6% headwind of vehicles produced is obviously problematic. As you look beyond that, you start tapping them up tariffs and things that actually directly impact gross margin, some instability in terms of trade relations, even a lined-down or pull back, and those would be incredibly helpful. Beyond that, it's about execution, getting that growth rate above 5% is really where we start to see margin expansion.

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

Got it. That's helpful. And then just what are you baking in for 2020 in terms of incremental tariff impact?

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

While this year, it was about $17.5 million and what we had talked about in the prepared comments is, right now, we have about $20 million baked into the forecast.

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

The 17.5% is a cumulative all-in number as opposed to incremental for '19 or?

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

Yes, that was the total for '19, yes, and then we're estimating '20 for...

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

The reason why we're estimating a little higher is because if you look at the second half of '19, there were increases in the tariffs mid-'19, I think, in May and June. And so those -- the second half run rate was a hair higher than the first half run rate.

Operator

Our next question comes from David Kelley with Jefferies.

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

I guess you mentioned the legacy revenue headwinds. Could you update us on what the full year 2019 impact of SmartBeam and Driver Assist was? And then any color on how you're thinking about 2020 and the update on the timing of the Mobileye roll-off would be really helpful.

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

Yes, good question. For 2019, it actually was about 275 basis points of headwind. 2/3 of that was Mobileye, the other 1/3 probably SmartBeam. And for 2020, we're looking at probably another 150 to 200 basis points of headwind. And then one more year really of impact in 2021, probably closer to 75 to 100 basis points. And then we'll be done talking about it, hopefully. And that's -- most of that fall off in 2021 is the last bit of Mobileye.

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

Okay. Perfect. That answers my question. And then, I guess, maybe switching beer -- gears...

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

Beer sounds good.

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

Yes, this sounds good. Another busy earnings. So the revenue guidance assumptions, I mean, I think most to date, at least, are assuming global light-vehicle production maybe a bit worse than IHS somewhere around -- number seems to be minus 2 to minus 4. Are you planning for anything as it relates to 2020, some downside to that minus 1 that could be embedded in that revenue guidance as well? Or is this market-specific or something you're seeing on the horizon that's maybe might provide some upside versus what some of the others are thinking out there?

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

Yes, I think we -- given what's happened in the last 2 years, in particular, we tend to take -- have a little bit of a negative slant on IHS estimates, generically, not just in 2020. But -- so our model and we look at it, we're probably a little more pessimistic on what those numbers suggest, especially given what's going on in China right now, knowing that their shutdowns are happening due to the virus and there's probably a couple of weeks of exposure there if that continues. So not that we would be disproportionately impacted based on changes in China, but it definitely does affect where we've been growing over the last couple of years. So we do have some -- we do have to keep our eye on that. Beyond that, what we're hopeful for is that if the market is just stable, even if it's slightly down, but stable, that gives us a great platform to operate in. The tough part is when you talk about strikes and some of the other inefficiencies that have happened, it's really tough to plan and it's very difficult, obviously, to get efficiencies when you're turning on and turning off lines. And so one of the things that we're focused on and hopeful for is that even if the numbers aren't perfect, at least there will be a more stable environment to operate.

Operator

Our next question comes from David Leiker with Baird.

David Jon Leiker - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

I was just wondering, well, first of all, these year-end adjustments, inventory, I presume most of that is with your -- the business that you have as a Tier 2 supplier, is that correct?

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

Yes. Most of it is with our Tier 1 customers. Yes.

David Jon Leiker - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

And can you quantify that or how big of a number that was?

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

It wasn't as big this year. I mean it wasn't a huge problem. It was more about -- the biggest impact was the strike in Q4.

David Jon Leiker - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Okay. Great. And then I want to circle back a bit on the commentary about the new launches and what '20, '21 and '22 might look like. Is there any sense -- is there any choppiness in any of that? Or does it look like your launches here are going to be fairly even as they come online in the next couple of years?

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

Are you talking specifically about FDM or generically?

David Jon Leiker - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Yes, FDM.

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

FDM. No, I don't think there'll be a lot of lumpiness. I mean I think it will be pretty well -- pretty spread out throughout the year.

David Jon Leiker - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Is GM -- how close is GM to being fully launched with your product?

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

I would say -- I would -- I'm trying to put it in a percentage. I would guess they're probably about 80% of the way there in terms of number of vehicles and nameplates. Obviously, over the next couple of years, you'll have some of the nameplate that we launched on a few years ago start to roll off and become new vehicles. So you'll see, I mean, what would look like a loss as they design a vehicle and replace it with something else.

But right now, we feel really comfortable about where we're at with that GM launch. Now it's more about -- less about the number of vehicles we're on. Right now, it's about take rates and penetration of that product into the GM lineup.

David Jon Leiker - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

You stole my next question. I'm guessing you're seeing take rates at GM of those products those vehicles that have launched, they are just continuing to see take rates. So where -- what kind of take rates are you seeing on the vehicles that you have FDM on?

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

It depends on which level of vehicle. Obviously, in some of the vehicles, like the Cadillac lineup, you're seeing upwards in the high 90s. And then if you're in more of the volume vehicles, you're in the mid-20s to mid-30% range.

David Jon Leiker - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

And is that consistent across other customers? Or is that higher at GM than others?

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

That was really high at GM. If you look at like Land Rover, for instance, we do very well on Land Rover vehicles, I would say, probably in the 70%, 80% range is kind of where we're at on the Land Rover lineup. Beyond that, it depends on the OEM. And it really, in their strategy and which vehicle it is. So -- but I would say, on average, when we get a customer, we kind of expect to be somewhere in the 30% to 40% range is kind of a good rule of thumb.

Operator

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

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

Actually, just wanted to -- sort of think about the 2020 guide here, I mean, you're looking for revenue up about 5% at the midpoint. I mean should we think about unit at the -- growing at the same rate? Or could they actually grow a little bit faster in some of these legacy products just create a little bit more pressure on revenue for mirror? Just trying to understand how you're thinking about the revenue on the units for next year.

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

Actually, I think given the headwinds on the production side and our kind of take on that, we wouldn't expect units to be above revenue. We actually think that with the growth in FDM, you're going to continue to see kind of dollar content increase on that side. And so we think our units will probably be a little lower growth rate than revenue.

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

Okay. And maybe just a follow-up on that. I mean when we look at the fourth quarter, I mean, the revenue per mirror. When you simply take automotive revenue divided by the total shipments was, I think, down about 5%. I mean is that a lot -- does that have a lot to do with the GM strike and it's sort of an anomaly? Or is that something -- there is something else going on there in legacy products below this...

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

It was primarily due to GM because if you think about them as a content, FDM is a big part of it. HomeLink, which is not included in that number, it's a modular base. But then secondarily, the Driver Assist primarily Mobileye as it's the highest -- one of our higher ASP products. So the combination of both of those drove the ASP decline.

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

Well, the other thing I would add there is OEC growth rate in the quarter was very high. And so those are below average ASP. And so whenever you have OEC growth rates much higher than IEC growth rates, you're going to see ASP deterioration, but like we always talk about, that tends to be a good signal for long term for margin stability.

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

Got it. And then that actually leads to my next question on the gross margins. I mean basically we're looking for flat to down year-over-year. Tariffs, you're highlighting as a headwind. Is there anything else that would be sort of a weight? I mean with that kind of revenue growth, you'd expect there to be some pretty good gross margin uplift?

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

Yes, I think just in general, you have the normal annual customer price reductions and what we know to be like a little tougher market from a supply standpoint to get cost reductions out of the supply base. But the biggest factor you point out there are the tariffs. And what we're seeing as we grow in China, for instance, and those tariffs on our products that we export into China do drive that tariff costs higher, not only -- the thing we always going to talk about is the incoming. We talked out a lot from the supply community. But for us, about half of those tariffs are on our exports back into the China market. So as we -- hopefully, we'll see a rebound in the China production levels, we would expect those tariffs to move proportionally with that, what we hope to be our growth rate back into China.

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

Got it. That's helpful. And then just as we think about sort of the adjacencies, the Airbus Windows as well as what you're working on the Mayo Clinic with the operating room lighting, I mean, do any of those roll on in the 2021 time frame? Or are these really sort of 2 to 5 years out? And how should we think about the revenue and gross margin opportunity there?

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

Yes. From the timing side, the aerospace window side, we'll start rolling in beginning part of next year. And then the -- when we talk about the medical lighting, that's 2 to 3 years of development, and then you're probably closer to 4 to 5 years out before that would actually contribute anything.

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

Got it. I mean and the economics on both of those as far as margins, I would imagine, will be significantly higher than your core for average. Is that a fair statement?

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

That's the hope.

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

Okay. And then just lastly on the CapEx. I mean what has happened here? I mean it seems like you guys are executing and putting in lines and everything that you need. I mean was something going on in the past where you were sort of just like maybe a slight lack of discipline in CapEx spending? Or is there something else that you're kind of -- secret sauce your uncovering here as you're being a lot more efficient?

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

Yes, I think there's a combination. I think one of the things we've worked really hard on as a management team in the last few years is making sure we're planning out further. That allows you to spend more efficiently, you're not rushing the buildings facilities and lines in place. Some of it is us just trying to manage to the market that we're in and being cognizant of what's happening from a growth rate perspective. Knowing that if we want to protect margins, we got to also protect for overhead issues, and those overhead issues are compounded when you have lower growth rate periods. And so fortunately, in the last few years we've been focused on that. That allowed us to have quite a bit of margin stability this year, whereas if we had overspent without the -- with the single-digit -- low single-digit growth rate, that would have been really difficult to absorb that extra overhead. So part of it is being disciplined. Part of it is -- don't want to say necessarily as a lack of discipline before, but there is definitely some things that we looked at and said we should be able to do better than that. And so we've been focused on that as a team for the last couple of years, and it's -- now it's become part of our DNA.

Operator

Our next question comes from Ryan Brinkman with JPMorgan.

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

And maybe just to start with another one, on the new medical business that you're pursuing. How are you thinking about the various use cases for the product? And how are you thinking about the associated total addressable market to the extent that you've done that work and can share?

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

Yes. So what was interesting about the product concept and the partnership with Mayo was it was focused on a problem statement that they have been working on and trying to solve for a long time, which was a general lack of technology, intelligence, the ability for surgeons and operating room staff to really execute well in that environment. Obviously, our history with machine vision and control and lighting and automotive was a good building block that we began with and started to make enhancements to that product. The real use case there or the available market there is obviously a number of operating rooms. The system itself is scalable.

In other words, they're kind of pods that you can put. They're ceiling mounted flushed with the ceiling, so you can scale based off of the need of that operating room. In terms of one of the things that we're excited about longer term is with the machine and the intelligence system, you can go to a fewer number of lighting pods and start to address not only operating rooms, but general care facilities, dentists office to orthodontist doctor's offices. It's -- there's a lot of available market outside of just the traditional operating room. And so when we look at the scalability of the system, we think there is plenty of market available. We know there's a lot of work to do to get this through, not only the development phase to make sure it works as well as we think it should.

But then also through the clinical trial process and then also FDA approvals. But when you start talking about all those steps, that's where we come up with that 3- to 5-year kind of window. But we've -- at this point in the development phase and a couple of years into this, we don't see any reason why we can't go ahead and complete that development cycle. All the technical hurdles that we saw at the beginning, we've gotten through most of those. We know there'll be a lot more as we continue that evolution and development, but it's pretty exciting because it is a very scalable system. And you can literally go from 1 or 2 pods up to 10 or 12 per room depending on the need.

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

Okay. And then when it comes to the development cost to support the medical business or the base sensor, the new camera monitoring systems, et cetera, to what extent have these costs already been running through your ER&D line? And then as a follow-up, I'm not sure how much you can or want to disclose, but are there other kind of like less field things that you are working on that are also already reflected in current ER&D that we don't yet know about similar to the medical revelation? What percent of your ER&D would you say is associated with new automotive and nonautomotive product categories that you're not already in today?

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

Sure. So I would say the vast majority of the cost increases that we've been talking about over the last 2 years and step up in R&D spending, those are already running through. On the medical -- supporting aerospace and medical, I'd say we're 80% of that already. There might be some small increases to that, that would drive R&D higher as we move through these next couple of years. But this isn't like this is going to double R&D spend or even be a huge mover to that. It's already reflected in our current spend.

And to answer your question on the other, yes, there's always some crazy ideas that we're working on that are pretty far out there. They are already in the budget as well. We usually don't talk about them until we feel like we have a market or a partner or a customer. And the reason why it's the vast majority of these ideas end up kind of failing or evolving and becoming something different. This one on the medical side, we felt really good about where we were with our partnership with Mayo and that the relationship that we've developed with them. And we felt like it was the right time to kind of show that to help kind of get the market aware of what we're working on, and what we think could be coming down the pike in the next couple of years.

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

Got it. And then just lastly for me. You mentioned that you're basing your outlook for global light-vehicle production minus 1% upon IHS. I know that's consistent with your historical practice. A few suppliers earlier this week, though, assumed global production more like minus 3% in 2020, a bit below IHS. I'm just curious how you're thinking about the trend in global production this year. Do you think there's upside or downside to various regions? And then maybe just what the latest you're seeing on the ground in China is?

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

Yes. I'd say, I mean, we would tend to agree with that, that there's probably more downside risk than upside potential. And so we kind of build our forecast around that. Looking at -- you go through some situational conditioning and look at it and say, okay, what is it -- what if it's down an extra percent or 2% and what does our forecast look like? We believe that our guidance range encapsulates a couple of points, a point or 2 more of downside. Obviously, we would love to see it just stable or flat or even a slight uptick, but we're not necessarily dependent on that, depending on where those headwinds or uplifts come from, it may or may not help us.

I mean we are very geographically kind of nuance. So you got to be careful of just looking at vehicle production. What we look at is where are we growing the most in those primary markets, especially the more mature markets where average vehicle sale prices are higher. And then also looking at what segmentation of vehicles those headwinds or challenges are coming from. If it's coming from A segment vehicles, this is probably not going to impact us as much. If it's C, D and E, obviously, we're going to have a disproportionate exposure to those level of vehicles.

Operator

The next question comes from David Whiston with Morningstar.

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

Kevin, I think earlier, you were talking about inventory. You were talking about higher raw materials due to some longer lead-time products coming and also some higher production coming, if I heard right. Can you -- are you able to say -- be a bit more specific as to what those products are and what customers have the higher production?

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

Not from a customer perspective, but it's really the general statement around FDM and the cost of the components related to FDM displays, electronics, all the things associated with that and building up for what was a shortfall in Q4 because of the strike and then build back, and what we're seeing kind of going into Q1.

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

And to put you, as an example, like in LCD right now, you're talking about months of lead time to get those components. So when the strike happened, and it happened that quickly, we've already got the components on-site in order to support our customers, but then it comes with 0 sales for 5 weeks. So obviously, your inventory starts to change pretty quickly when that happens.

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

Okay. We had a little bit of a falling in U.S.-China trade relations recently. I know you talked about a dollar tariff headwind, but -- and I missed the first minute of the call, so I apologize if you mentioned this, but anything you can say on basis points impact? I know you're talking about 110 bps before.

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

That's kind of where we're at, all in, is around 100 basis points of total exposure in 2019. We're modeling in about $20 million worth of impact for 2020, which is around the same impact. Now as Steve also mentioned, if things grow in China, which we hope, the tariffs actually do incrementally get a little bit worse versus what the mix was in 2019 because of our imports into the China market. Our tariff rates there are, at this point, about half of what the total tariff exposure is.

Operator

Our next question comes from Ryan Sigdahl with Craig-Hallum Capital.

Ryan Ronald Sigdahl - *Craig-Hallum Capital Group LLC, Research Division - Senior Research Analyst*

As it relates to the virus-related disruptions going on in China here, have you guys seen any impact to either component supply into the U.S. or shipments into China?

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

Yes, not so much on our shipments into China. But on the incoming supply side, you definitely see some things happening there. I mean nothing that's catastrophic like it was during the natural disasters from a few years ago. But more problems just getting components, a, on time, definitely -- especially during the trade, like during some of the trade disputes, there was some slowdown in the processing at ports and how things were happening. So something we were keeping our eye on. More importantly for us in order to offset a lot of those tariffs, we've had some change in supplier locations and, ultimately, some change in suppliers to help find areas where we could get sourced outside of those areas would be impacted by tariffs. So some of it was things that happen to us. Some of that were things we were actively trying to pursue in order to get costs down. So those continue to happen. They're not -- definitely not as bad right now as what they have been. So we continue to watch it, and you're always a little careful to -- you count your chickens, you're just nervous that some changes and that there's a disruption. And given the complexity of our industry and the supply base, it's something we always keep our eye on.

Ryan Ronald Sigdahl - *Craig-Hallum Capital Group LLC, Research Division - Senior Research Analyst*

And as you talk about moving suppliers and locations, is that primarily to other regions in China? Or is that outside of the country? And then secondly, you mentioned you talked about kind of higher lead time for building some inventory components. But is there anything related to kind of the situation in China and why you're also building some inventory of components there?

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

No, nothing that's going on in China that's causing that build in inventory. It was really -- there was a lot of components that come from China that we use in FDM products, for instance, and some of our other products that, as the strike happened, we needed to have those parts in order in the late fall in order to have them here. Oftentimes, 12 to 16 weeks ahead of when your -- you owe those deliveries to your customer. And so we have those parts already in-house and already coming. And then when you have 5-week stoppage of parts you're selling to your customer, you see the inventory level swell.

And you're not stopping the incoming supply very much because you know you have to ramp back up or be prepared to ramp back up late fourth quarter or early Q1 to help support your customers. So that's what's really driving that increase in inventory. And then you had a second part of that question and -- oh, yes, the other part is, the vast majority of those when we moved, we're moving -- changing either the existing supplier to a different location they had outside of China in order to get away from the tariff situation. And in some cases, actually changing the sourcing to a different supplier outside of China.

Ryan Ronald Sigdahl - *Craig-Hallum Capital Group LLC, Research Division - Senior Research Analyst*

Got it. Last one for me, and maybe I missed it earlier, but did you guys give the new nameplate launches you had in the quarter like you normally do? And then also within that kind of the breakout between advanced features, geographic regions, products, et cetera?

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

No, we didn't go through it. Just Neil's section was long enough and he was about ready to pass out after covering all of that. So we decided to give him a break. But basically, the launches for Full Display Mirror in Q4 were right in line with what our estimates were. So there's a couple of them we didn't -- we weren't going to mention by name because they haven't shown up on the customers' websites yet or they haven't made an announcement of them. But we've gone through our launch -- we've gone through our launch phase and have begun the shipping process. It just hasn't hit the marketplace yet.

Ryan Ronald Sigdahl - *Craig-Hallum Capital Group LLC, Research Division - Senior Research Analyst*

Got it. And then everything else, fair to say, it's reasonably in line with kind of similar quarters previously? Or was there...

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

Yes. Yes, exactly. The normal kind of product launches, usually somewhere above 50% of the product launches we do or some type of an advanced feature continued growth even despite the things that are going on, continued growth in China end market for us with our base mirror applications. So all in all, pretty similar quarter to what we've had in the past.

Operator

And I'm not showing any further questions at this time. I'd like to turn the call back over to our host.

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

Great. Thank you, everyone, for your time and questions. This concludes our call. Have a great weekend.

Operator

Ladies and gentlemen, this does conclude today's presentation. You may now disconnect, and have a wonderful day.
