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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Gentex Reports Fourth Quarter and Year Ended 2018 Financial Results Conference Call. (Operator Instructions)

I would now like to introduce your host for today's conference call, Mr. 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 2018 Earnings Release Conference Call. I'm Josh O'Berski, Director of Investor Relations at Gentex. And I'm joined by Steve Downing, President and CEO; Kevin Nash, Vice President of Finance and CFO; and Neil Boehm, Vice President of Engineering and CTO.

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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 2018 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 2018 financial summary. Steve?

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

Thank you, Josh. For the fourth quarter of 2018, the company reported net sales of $453.4 million, a decrease of 1% compared to net sales of $459.6 million for the fourth quarter of 2017. During the fourth quarter of 2018, plant shutdowns and changes to production schedules at OEMs as well as order adjustments at certain Tier 1 customers negatively impacted quarterly unit shipments and revenue.

At the beginning of the fourth quarter of 2018, vehicle production estimates from IHS Markit showed a net growth of approximately 2% in the combined regions of Europe, North America, Japan and Korea and a slight decline for the China market. The actual unit productions for these markets in the fourth quarter combine for a decline of nearly 6%. The total negative impact on company revenue as a result of the vehicle production shortfall and the Tier 1 adjustments to orders was approximately $30 million in the quarter of -- fourth quarter of 2018.

For calendar year 2018, the company's net sales increased 2% to $1.83 billion compared to $1.79 billion for calendar year 2017, primarily as a result of a 6% increase in auto-dimming interior and exterior mirror unit shipments, which were partially offset by product mix headwinds, vehicle production shortfalls and Tier 1 adjustments that primarily affected the fourth quarter of 2018.

The company's initial forecast for 2018 was based on a vehicle production forecast that assumed an approximate growth rate of 1% for Europe, North America, Japan, Korea and China. However, the actual vehicle production rates for calendar year 2018 in those markets were down approximately 2%.

While 2018 was not the growth year we had hoped for, we are encouraged that our top line grew despite the poor performance in light vehicle production, particularly in our highest penetration and dollar content markets of Europe and North America. In the end, 2018 finished with our sales levels outperforming our underlying markets by over 4%. And when you consider the order adjustments of Tier 1 customers, this growth rate was very close to our stated goal of mid-single-digit outperformance versus our underlying market.

The gross margin in the fourth quarter of 2018 was 37.9% compared with a gross margin of 39.2% in the fourth quarter of 2017. The gross margin during the fourth quarter of 2018 was negatively impacted by approximately 80 basis points from tariffs that became effective during the third quarter of 2018. For calendar year 2018, the gross margin was 37.6% compared with a gross margin of 38.7% for calendar year 2017. The gross margin during the year was negatively impacted by approximately 30 basis points from tariffs that became effective during 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.

When considering the poor performance in light vehicle production and the lower-than-expected revenue that this produced, we were pleased with the fourth quarter gross margin of 37.9%. The gross margin expansion of 30 basis points from the third to the fourth quarter of 2018 was impressive given the overall lower sales level. Additionally, the fourth quarter gross margin would have further improved if not for the incremental 20 basis points of tariffs that began at the end of the third quarter. In fact, without the incremental tariffs in Q4, the gross margin expanded by 50 basis points from Q3 to Q4. The cost comparisons throughout the year are difficult given the tariff ramp-up in the second half of 2018. But if we exclude the impact of tariffs throughout the year, then the gross margin of the company improved sequentially during each quarter of 2018.

Operating expenses during the fourth quarter of 2018 were up 0.5% to $46.5 million when compared to operating expenses of $46.3 million in the fourth quarter of 2017. For calendar year 2018, operating expenses were $182.3 million, up 6.5% compared to $171.2 million in calendar year 2017.

Net income for the fourth quarter of 2018 was $106.3 million compared to net income of $130.5 million in the fourth quarter of 2017. Net income in the fourth quarter of 2017 was positively impacted by $37.2 million as a result of the Tax Cuts and Jobs Act that became effective during the fourth quarter of 2017. When excluding these onetime tax benefits in the fourth quarter of 2017, net income increased by 14% for the fourth quarter of 2018 when compared to the fourth quarter of 2017.

Net income for calendar year 2018 was $437.9 million, up 8% compared with net income of $406.8 million in calendar year 2017, primarily driven by a lower effective tax rate for 2018. Net income in 2017 was positively impacted by $37.2 million as a result of the Tax Cuts and Jobs Act. When excluding these onetime tax benefits in 2017, net income increased by 18.5% for 2018 when compared with calendar year 2017.

Earnings per diluted share in the fourth quarter of 2018 were $0.41 compared with earnings per diluted share of $0.46 in the fourth quarter of 2017. Earnings per diluted share during the fourth quarter of 2017 were positively impacted by $0.13 as a result of the Tax Cuts and Jobs Act that became effective during the fourth quarter of 2017. When excluding the onetime tax benefit during the fourth quarter of 2017, the earnings per share increased 24% in the fourth quarter of 2018 versus the fourth quarter of 2017.

For calendar year 2018, earnings per diluted share were $1.62, which was a 15% increase year-over-year compared with $1.41 for calendar year 2017. Earnings per diluted share during 2017 were positively impacted by $0.13 as a result of the Tax Cuts and Jobs Act. When excluding the onetime tax benefit in 2017, the earnings per share increased 26.6% for 2018 versus calendar year 2017.

The company repurchased 3.3 million shares of its common stock during the fourth quarter of 2018 for a total share repurchase of $69.8 million in the quarter. For the year ended December 31, 2018, the company repurchased 26.4 million shares of its common stock for a total of $591 million.

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 2% in the fourth quarter of 2018 compared with the fourth quarter of 2017 and increased 6% for calendar year '18 when compared to calendar year '17. Automotive net sales in the fourth quarter of '18 were $442.8 million, down 2% compared with $450.4 million in the fourth quarter of '17; and for calendar year, '18 were $1.79 billion, up 2% compared with $1.76 billion in calendar year '17. Other net sales were $10.6 million in the fourth quarter of '18, up 16% compared with $9.2 million in the fourth quarter of '17; and for calendar year '18, were up 17% to $42.9 million when compared with $36.7 million in calendar year '17.

Now for a balance sheet update. The following balance sheet items represent a comparison versus December 31 of '17, which are also included in today's press release. Cash and cash equivalents were $217 million, down from $569.8 million primarily due to share repurchases, accelerated debt repayments, capital expenditures, dividend payments and investment purchases, which more than offset cash flow from operations. All of these changes were in line with our capital allocation plan announced in March of 2018. Short-term investments were $169.4 million, up from $152.5 million. And long-term investments were $138 million, up from $57.8 million due to investment purchases during calendar '18.

Accounts receivable was $213.5 million, down from $231.1 million, primarily due to the timing of the sales in the quarter and the slightly lower sales levels during the comparable periods year-over-year. Prepaid expenses were $25.6 million, up from $14.4 million, primarily due to increased refundable income taxes. Inventories were $225.3 million, up from $216.8 million, primarily due to the unexpected order adjustments during Q4 and raw material inventory levels to support first quarter of 2019 production and sales forecasts. Accounts payable increased to $92.8 million from $89.9 million. And accrued liabilities declined to $76.4 million from $153.8 million, primarily due to the payoff of the company's term loan and revolver in 2018.

Now for some cash flow highlights. Fourth quarter 2018 cash flow from operations was $154.2 million versus $148.5 million in the fourth quarter of '17 driven by changes in working capital and deferred taxes but were partially offset by lower net income. And for calendar '18, cash flow from operations was $552.4 million versus $501 million in calendar year '17, primarily driven by increases in net income.

Capital expenditures for the fourth quarter of '18 were $17.2 million compared with $17.9 million for the fourth quarter of '17. For calendar year '18, capital expenditures were $86 million compared with $104 million for calendar year '17 and down significantly from our beginning of the year estimate of $115 million to $130 million for the year.

Depreciation and amortization for the fourth quarter of '18 was $21.4 million compared with $24.7 million in the fourth quarter of '17. And for calendar year '18, depreciation and amortization was $102.2 million compared with $99.6 million for calendar year '17, which was also down significantly from our beginning of the year estimate of $105 million to $115 million.

Now for some additional details on share repurchases. The company repurchased 3.3 million shares of its common stock during the fourth quarter of '18 at an average price of $21 per share. And for the year ended December 31, '18, the company repurchased 26.4 million shares of its common stock at an average price of $22.37 per share. In total, share repurchases increased 120% when compared to the 12 million shares repurchased for the year ended December 31 of '17. And as of December 31 of '18, the company has 8.8 million shares remaining available for repurchase in the previously announced plan.

I will now hand the call over to Neil for a product and CES update.

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

Thank you, Kevin. Earlier this month, Gentex displayed at the 2019 Consumer Electronics Show. This show was a great platform for Gentex to showcase our technologies and capabilities. We utilized CES as an opportunity to show our customers a summary of our currently available technologies and a road map of where our technologies are going in the future.

The technologies we displayed this year at CES were focused on digital vision, the connected vehicle and dimmable devices. At CES 2018, we showed concepts of how dimmable devices could fit into the vehicle of today and the future. It is important to note that the products we showed last year were theoretical examples of what the products could look like in the future. We use CES as a way to judge customer and consumer interest in our ideas for technology of the future. The customer and consumer interest was so strong regarding our dimmable devices at CES in 2018 that we took those concepts and made large, curved, dimmable devices that were designed to fit perfectly into the show vehicles in our booth. This required tremendous engineering effort from last year to this year to get from the theoretical application to larger, curved devices that allows OEMs to see and experience our dimmable devices in a made-for-production sunroof application.

This evolution of the product concepts allows us to demonstrate how our technology can apply to the ever-changing automotive environment. One of the vehicles on display at our booth was a Volvo XC90. This XC90 was outfitted with our Full Display Mirror, our hybrid camera monitoring system and a large dimmable sunroof. All of these features were integrated to represent what a production system would look like with these technologies.

The vehicle had 2 large glass roof sections where a dimmable device was placed in the front section, and the factory-installed glass remained in the rear section. This allowed us to clearly demonstrate the value of our dimming technology in a large device versus the existing limitations of sunroofs today.

Another vehicle we had positioned at our booth was a Cadillac CTS-V. The Cadillac was used to demonstrate our all new GM Gen 2 Full Display Mirror, an iris-based biometrics system and a large dimmable sunroof. By putting the iris-based biometric system in this vehicle, we were able to clearly show the benefits and use cases of this technology to help provide everything from comfort and convenience features to security presented in information and vehicle controls and the ability to enable the vehicle to become transactional with security installed at the vehicle level. The large dimmable sunroof allowed us to demonstrate how our dimming technology can be applied to different shaped and curved sunroofs.

We continue to be very encouraged at the high level of interest from both OEM customers and consumers in the large dimming devices displayed in both the Volvo XC90 and the Cadillac CTS-V. Both of these vehicles helped to clearly show how our technology applies to the vehicles of today and the vehicles of the future.

On the opening day of CES, we announced that Boeing will be offering electronically dimmable windows on the Boeing 777X platform. We partnered with Boeing to have a display panel showing the 777X window and switch assembly at our booth. We are extremely excited to see the continued interest and growth of our aerospace window business and to announce the 777X as our first program as a Tier 1 in aerospace.

Moving on to product launches. Despite the difficult vehicle production environment, the fourth quarter of 2018 was a great product launch quarter for the company with 20 net new nameplate launches of our inside and outside electrochromic mirrors and electronic features. Both HomeLink and advanced featured outside electrochromic mirror launches were strong in the quarter. This net new nameplate launch rate was the highest fourth quarter rate in over 5 years, and we believe it shows the continued interest in our products and technologies.

Now for an update on Full Display Mirror launches and activity. We're pleased to announce that during the fourth quarter of 2018, we began shipping our Full Display Mirror on the Toyota RAV4. Toyota has been a great partner in the development of technologies over the last several years, and we're excited to see them launch on this high-volume global vehicle. Also in the fourth quarter of 2018, we began shipping the Full Display Mirror products for the Chevy Silverado and the Chevy Blazer. Including these latest vehicles, Gentex is currently shipping Full Display Mirror products on 24 vehicle nameplates sold in various global markets. And for 2018, we shipped 390,000 units, well on our way to our stated goal of shipping 500,000 units in 2019.

Finally, we are excited to announce that during the fourth quarter of 2018, we've been sourced a Full Display Mirror program with our eighth OEM. This award helps to show the value our customers see in the combination of our auto-dimming and digital display technology. It is our expectation that we'll be able to announce our ninth OEM award during the first half of 2019.

I will now hand the call back over to Steve for 2019 and 2020 guidance and closing remarks.

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

Thank you, Neil. Our forecasted guidance for calendar years 2019 and 2020 are based on a mid-January 2019 IHS Markit production forecast for light vehicles produced in North America, Europe, Japan, Korea and China. The current IHS Markit light vehicle production forecast for these markets is expected to increase approximately 1% for both years. And based on that, the company estimates that net sales for calendar year 2019 will be between $1.83 billion and $1.93 billion.

The company estimates that the gross profit margin for calendar year 2019 will be between 36% and 37%. This gross margin estimate includes approximately $20 million in annual costs as a result of tariffs that were put in place in 2018 and proposed increases set to become effective in March of '19.

From an operating expense standpoint, the company expects ER&D and SG&A expenses to be between $195 million and $200 million for calendar year 2019. The company currently is estimating its annual effective tax rate to be between 16% and 18% for calendar year 2019.

In order to support future growth and program launches, capacity expansion and production automation, the company estimates that capital expenditures for 2019 will be between $90 million and $100 million and that depreciation and amortization expense will be between $105 million and $115 million for calendar year '19.

Based on the company's forecast for light vehicle production for calendar year 2020, the company currently expects 2020 revenue growth of approximately 3% to 8%, above the 2019 revenue estimates.

2018 was a very busy year for the company. We have continued to invest in new technology and are currently working hard to engineer and develop applications that will drive growth in the years to come. However, we have continued to stay focused on costs as we work to develop these new technologies. As an example, look at our capital expenditures throughout the year. We began the year with a CapEx budget of $115 million to $130 million for the year and depreciation and amortization estimates of $105 million to $115 million for the year. Throughout the year, we continued to update those estimates as we aligned our expense growth to the emerging business environment. This disciplined focus on cost control, brought the CapEx budget down to $86 million for the year and brought depreciation and amortization down to $102.2 million for the year. The lower level of CapEx was accomplished in such a way that we are still funding our automation projects to help with cost control and quality improvements, while we continue to invest into our new technology areas.

2019 will likely continue to have headwinds in overall vehicle production levels, and the combination of tariffs and component costs will create additional cost impacts to the business versus last year. But we are confident that the team's focus and discipline will allow us to offset many of these headwinds in 2019 as we work hard to create shareholder value in 2019 and beyond.

I want to thank you for your time today. And we can now proceed to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Rich Kwas with Wells Fargo Securities.

Richard Michael Kwas - *Wells Fargo Securities, LLC, Research Division - MD & Senior Equity Research Analyst*

So Steve, on the guide, I know you used IHS, but a lot of suppliers are taking a haircut to that given that they've kind of been behind the eight ball with regards to getting ahead of what's happened in China and now Europe, to some degree. So within this outlook, I mean, have you factored in any incremental mix headwinds? Or how should we think about kind of the contingency with regards to revenues here?

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

Sure. So if you look at -- you're absolutely right, I mean, when you look at, especially the changes that happened in the second half of '18 versus the IHS forecast, we know that there has been additional headwinds beyond what the forecast has shown in the last -- especially in the back half of the year. And so when we look at the IHS numbers for 2019, we do model a little bit more headwinds than what's just in the raw numbers. So our outlook includes not only the forecast itself but also a little bit of incremental headwinds that are more tied to production at certain trim levels. Obviously, those overall vehicle production levels are assuming all classification of vehicles, A through E. We look at the impact, especially in C, D, and E segment vehicles, in the fourth quarter, and what you see is there's more of a headwind in that upper segmentation than there is in the lower. And so we look at that as we model it as well and make sure we're understanding not just how many vehicles are produced, but which ones that are in our kind of key markets are going to be affected by that production level. And then the last thing that we factor in is like you mentioned, Rich, is obviously, product-specific headwinds that we've seen, really developing the ones we've been talking about, some headwinds on Driver Assist and SmartBeam and then some of our other electronic features. So in 2018, for instance, those accounted for about a 2% headwind to revenue, so the SmartBeam and Driver Assist losses in the year. So without those, obviously, the revenue would have performed even better.

Richard Michael Kwas - *Wells Fargo Securities, LLC, Research Division - MD & Senior Equity Research Analyst*

Is that the same level you're assuming for '19, 2% headwind?

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

Yes, about 2% to revenue on SmartBeam and Driver Assist.

Richard Michael Kwas - *Wells Fargo Securities, LLC, Research Division - MD & Senior Equity Research Analyst*

Okay. And then as a way to think that -- because Europe is so important for you. If you think about Q4 run rate, C, D, and E, in Europe, is the fourth quarter run rate the right way to think about when we look at the mix levels, trim levels, et cetera, as you go through the year? I mean, I know comps will ease up later in the year. But I mean, here in the first half of the year, is that -- should you take the fourth quarter run rate and kind of extrapolate here -- that into at least part of the guidance?

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

Yes. I mean, that's one of the things we look at is just saying, if that fourth quarter were to continue, what would that look like for us? Obviously, there were some extenuating circumstances towards the second half of the year in Europe related to WLTP. So we think there might be a little bit of an upside bias versus those numbers. But that's kind of our thought going in as we don't expect massive changes in production from what you saw at the end of Q4 heading into '19.

Richard Michael Kwas - *Wells Fargo Securities, LLC, Research Division - MD & Senior Equity Research Analyst*

Okay, to start the year, okay. And then on tariffs, so the $20 million is incremental year-over-year, correct? And that's at the 25% rate?

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

No, that's the total number built into the forecast for the year.

Richard Michael Kwas - *Wells Fargo Securities, LLC, Research Division - MD & Senior Equity Research Analyst*

Okay, that's the total number. So what -- you've made reference to the rate changing in March. So does that assume that the rate goes to 25% March 2?

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

Yes. So it's a combination. It is the -- does increase the tariff Level 3 to that 25%. But if you noticed, we had a little bit better impact in Q4. Part of that was driven by purchases and volume in the quarter. And then, obviously, updating our forecast in '19, that come -- came down a little bit. And we also had some of our supply moved out of China into Taiwan, actually. So that helps ease a little bit of the tariff estimates for -- going into '19. So $20 million is the full calculation.

Richard Michael Kwas - *Wells Fargo Securities, LLC, Research Division - MD & Senior Equity Research Analyst*

So what was the number for '19 -- or '18, excuse me, just to level set ourselves...

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

It was about $6 million when you combine Q3 and Q4.

Richard Michael Kwas - *Wells Fargo Securities, LLC, Research Division - MD & Senior Equity Research Analyst*

Okay, okay. And then the electronics headwind, that's separate, I know it could be related but separate. In terms of capacity issues, is that separate a number? In terms of...

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

It is a separate number, yes.

Richard Michael Kwas - *Wells Fargo Securities, LLC, Research Division - MD & Senior Equity Research Analyst*

Okay. And that's within the gross margin estimate, okay.

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

It is. That's correct.

Operator

Our next question comes from Richard Carlson with BMO Capital Markets.

Richard Clayton Carlson - *BMO Capital Markets Equity Research - Analyst*

Just following up on Richard's question there. So it sounds like absent the tariffs, you would have had about a 38% gross margin for 2018. You're building in, it sounds like, a little bit over 100 basis points for a headwind in 2019. So it sounds like there's still some pressure on the margins. I'm just wondering if you could kind of walk through what some of those drivers are.

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

I think, Rich, you're absolutely right. The biggest headwind that we have is that we're seeing APRs still in that 2% to 2.5% range. But the component cost increases are flattening, I guess, or not decreases on electronics. It's typically where we get our biggest offset, and we're seeing some pressure there that we're not able to offset some of that. In addition to that sales level in that 0% to 5% range, we talk a lot about needing to be at 5% or more to leverage our fixed investments. We have trued up our CapEx budget a little bit, but we still have a base there that is tough to offset with the rest of the business.

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

And then that extra $14 million in tariffs.

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

Yes.

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

In '19 versus -- over the '18 costs. So that's a -- that incremental headwind on tariffs is going to have, obviously, a direct flow-through into the gross margin.

Richard Clayton Carlson - *BMO Capital Markets Equity Research - Analyst*

And then your operating expense guide, I mean, you guys talked about it last quarter and saying it was going to probably outpace revenue this year. So just wondering if you could explain why that is and is that something that we should model going forward into 2020 and beyond.

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

Yes. If you look at -- one of the things we talked about is with some of the product headwinds that we're seeing, so the SmartBeam and Driver Assist headwinds, those are negatively holding back our revenue performance. But some of the new products like what you saw at CES, those require, obviously, a step-up in R&D. So whether that's the connected car, the digital vision systems or the large-area devices, we're going to continue to fund those projects because we see the customer interest and consumer interest, quite frankly, for those features. And so what we know is that if we -- if we're careful in terms of what that spread looks like and R&D outpacing kind of revenue growth, then it's going to be an investment that'll definitely pay out in the forward years. But like we've mentioned before, it's kind of a 3- to 4-year business development cycle. And so right now, we're in the process of trying to manage other costs as well as we can to try to limit that expense growth, but continuing to pour full resources toward those R&D efforts to help drive growth rates in the out-years.

Richard Clayton Carlson - *BMO Capital Markets Equity Research - Analyst*

Got it. And then just last one for me. It sounds like you guys are doing extremely well with the FDM ramp. And you're almost 400,000 for 2018. So that 500,000 target for 2019 now seems pretty conservative. So what thoughts do you have on why not raising that up a little bit or if there's any -- anything I'm missing on sort of the growth rate that we've seen over the past couple of quarters?

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

No, you're not missing anything. I think the ramp-up has been pretty exciting for the company and has helped us offset some of those other product headwinds. Honestly, if it weren't for those other product launches, you'd see the full flow-through effect of the FDM volumes and the impact it has on the business. That being said, just given everything that's going on in the industry and with production levels, we're just going to hold that 0.5 million units number right now. What we've said in the past couple of quarters, though, is obviously, if we didn't accomplish like -- if we didn't accomplish at least 0.5 million units next year -- this -- well, I guess, this year now in '19, we'd be wildly disappointed. So that gives you a little bit of an indication. If you look at -- another way to look at it is if you look at the growth rate last year, so call it 150,000 units to 390,000 in '18 and then -- and kind of model out that trajectory, it kind of gives you a rough idea that we should be north of that 0.5 million unit level, but we're not going to monetize it right now.

Operator

Our next question comes from Chris Van Horn with B. Riley FBR.

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

First question is on China exposure. Have you -- can you or have you been able to quantify -- do you have domestic Chinese exposure versus kind of the trans pans or the exports and imports? And kind of what are you thinking about for 2019 there?

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

Yes. So looking at 2018, it was a really good year from a performance perspective. We had a really good unit growth. The fourth quarter was a negative impact. And for 2018 calendar, it was about 7.5% of corporate sales. So if you remember what we talked about before, it then stepped from about 6% in the prior years. So...

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

And we'd have expected that to be higher if Q4 -- that percentage of total revenue would have been higher if Q4 performance in China had been better.

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

And so we still see continued growth in '19 in the China market. In the penetration basis, as it relates to getting more unit volume, obviously, the weakness in Q4 and into Q1, the pure dollar volume may not inflect. But we still have a lot of new programs ramping in that market.

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

I think, as an example, Neil, wasn't that 3 or 4 domestic?

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

It was 3 in the fourth quarter, domestic China.

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

Domestic China launches in the Q4 numbers that you spoke about.

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

Okay, got it. Perfect. And then I apologize if I missed it, but did you mention the percent of revenues from advanced features during the quarter?

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

It's been running at about that 55%, 45% for the last several quarters, and I think it was -- it's pretty similar. So 55% base, 45% advanced feature.

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

Okay. Okay. And then could you comment on the North American exterior mirror shipments in the quarter up 40%? Was that just a program launch or anything going on there?

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

Yes. What I would say is there was some resourcing of some outside mirrors to Gentex during, really the -- during a good portion of '18, really starting in around summertime and through the end of the year. And so we've seen some takeover wins that have helped drive those growth rates.

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

Got it. Got it. And then first -- final for me, congrats on all the FDM award wins and rollouts here. So it seems like the OEMs are taking kind of a -- Toyota, specifically, gives you a Japanese program, and then it ramps into more of a global platform like a RAV4. Is that the sense you're getting from all the customers? And how do you see that playing out over the next couple of years?

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

Yes. I mean, Toyota's -- in Toyota's case, for instance, our actual -- really, our debut there was on the Lexus LS. And so when that new vehicle rolled out, they wanted to make sure they captured the flagship first. From there, in the Toyota culture, you get a lot of chief engineers who have a tremendous amount of pool and decision-making capability in their system. And so from that standpoint, it's -- Toyota is a little different than some OEMs. Some OEMs will have a kind of a corporate rollout strategy. Toyota absolutely has that, but there's also a lot of flexibility in the -- at the chief engineer level to pick features that they view as a good fit for their vehicles. And so that's helped us a lot in terms of the ramp-up and the speed of this. In other words, you don't have to wait necessarily for a certain order of vehicles to launch. When an OEM sees a feature that they get excited about and they feel like the consumers are interested in, there's ways to get that into the market quicker than it would be if it were a top-down strategy.

Operator

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

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

I just want to kind of add to that, about gross margin here. I mean and as we think beyond 2019 and you get sort of through the bumps around tariffs and some of the other sort of headwinds, where do you think the sort of the natural glide path is for gross is? Because I think on a year-over-year basis, there was a little bit of a concern that it's going down. But there might be the potential as you work through these things, do some resourcing, you might be able to get back to the 39% to 40% range. Is there any kind of structural reason you don't think you could get back there? Is there something maybe with the new products where there's lower gross? So I'm just trying to understand.

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

Yes. Sure. With -- starting a couple of years ago, when the margin even got to that 39% range, we were very cautious about The Street and guiding that. We didn't feel like 39% to 40% was our long-term stasis point. In other words, certain things at the time were happening during that time period. In other words, advanced feature mix was really high. Base mirror shipments weren't growing at that point in time quite as fast. And so you had the product mix itself and the growth rate of the company was such that it was driving margins a hair higher. We also knew that some of the deleveraging that Kevin talked about and some of the things that have happened on the CapEx front over the last 5 years were going to impact that as well. So when we look at really what's happening, if you take tariffs out of that, we still believe that kind of 37% or 37.5% up to 38% is kind of the natural gross margin level of the company. And that's what we're working really hard on heading into '19, trying to make sure we do our best to get as close to that as possible. Knowing that the headwinds from the tariffs are obviously an impact that we can't control right now, we are working really hard to minimize those, and we have made a lot of progress in that since when this first came up earlier in the year. And so when we look at that guide of 36% to 37%, obviously, if you were to take tariffs out of that, we'd be at least 50 basis points higher than that guide, and then we'd be kind of in that same range that we're talking about as our long-term goal for gross margin performance.

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

And when we think -- that's very -- extremely helpful. And when we think about the new products coming in, Full Display Mirrors, I'd imagine maybe a little bit on the higher side in corp average and then some of the other stuff that's coming in might be a little bit lower. As you think about the new products layering in and become a bigger portion of the revenue base, I mean, will that shift in either direction?

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

No, the Full Display Mirror, for the most part, if you look at all the customers that were launching over the next several years, they're right around corporate average margin profile. So they won't really have a tailwind. What does tend to have a tailwind for us on the margin side is outside mirror growth rates will tend to help. Obviously, though, with inside mirror growth rates being what they've been, especially in the China market and other places, our base auto-dimming inside mirrors tend to be below corporate average. So it's really about that mix rate of what's growing and at what rate and then what does that blended average look like as we go forward. So for the most part, most of our advanced features are at corporate average or slightly above. So that kind of gives a little bit of a thought process as to what needs to -- when you see growth rates develop versus auto-dimming, versus advanced features, like Kevin mentioned, we've been running closer to the 55-45. The year before or so, we were running at about 50-50. That's why you saw a little bit stronger gross margin performance in the prior years. With that, it's about 50% of revenue from auto-dimming, 50% from advanced features. This year, it's a little bit more like 55% auto-dimming and 45% advanced features. Part of that is driven by some of the SmartBeam and Driver Assist losses that we have been experiencing. And so as those continue, we think that mix will probably stay at 55-45 for at least the next couple of years.

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

Got it. That's helpful. And then just a second question is sort of in a similar vein around the operating expenses. It looks like sort of midpoint of the range you kind of land about 10.5% of sales. That's up about 50 bps year-over-year. A lot of that, I'm presuming, is R&D, which makes a lot of sense on -- for new products. But if we look at sort of the last 5 years, that 10.5% is about 100 basis points higher than it has been. And if we look back in history, your R&D has been, in some cases, in product development and growth phases, it's been as high as 8%, which is higher than the 6% it looks like is being applied here. I mean, how should we think about these operating expenses and really R&D? I mean, SG&A is in SG&A line. R&D, obviously, you can bump up and down depending on how you want to handle product development. What's really kind of the thought process there on R&D? Is this sort of a dollar number that if you flex up on the top line will be a lot lower percent of sales? And just how are you thinking about that line item going forward?

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

Sure. So first on -- and just for everybody, we always like to recreate the history of R&D, SG&A expenses over time because they have moved quite a bit in the last 5 years. So -- and we say they've moved because historically, the company ran at about 12% of sales. Really, if you look for about 15 years of the company's history, up until 2012, '13 time period, it's about 12% of revenue. In 2013, when we acquired HomeLink, what happened was you had a step-up function in revenue, very low R&D at that time that came with that acquisition. And so you solve the index down in that percentage of sales basis for R&D and SG&A. Since that time, that business A was a great driver of growth and revenue and profitability, but it did require some funding. And so we've been working since that 2013, '14 kind of rolling in introduction to make sure we're spending appropriately on that technology. And with some of the losses in our other portfolio, that going up to about 10.5% of sales is really kind of the natural trajectory we've been guiding to is that we needed -- we are going to need to ramp R&D to help with some of these new technologies we're working on that you saw at CES, connected car technology, the large area devices, especially, and then digital vision systems. So we're trying to do that in a controlled fashion. We want to make sure that everyone understands that our intention is to spend a little bit more on R&D than what we have for the last couple of years. But we're trying to make sure that those rates are rational and reasonable. And on the corresponding side, we're trying to make sure that we're managing costs closer, for instance, on CapEx, to help offset and make sure that, that depreciation and amortization expense doesn't grow at the same rate as our R&D expenses.

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

So that 10.5% plus or minus is the -- is a reasonable sort of natural level to think about going forward?

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

Yes, correct. And if it needed to be a little more, obviously, to get something like large area devices off the ground, then, of course, we would. And that's -- your second part of that question was really how do we think about it or how do we strategize around it. It's really less about targeting a top-down number and more about a bottom-up. In other words, what is it going to take to get these new technologies fully engineered and ready for launch. And so we look at it from -- more from a headcount manpower standpoint, what does it take to accomplish that engineering feat and then how are we going to go about getting the resources in-house to make sure we can do that effectively and at the timing that the OEMs want.

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

And then just one last question. As we think about like-for-like pricing on products, has there been any incremental step-up in automaker requests for price-downs? Because it seems like they're getting -- might be getting a little bit more aggressive with the supply base. And how, as you think about product going forward, do you think you can offset that?

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

Yes. I think there is definitely a bit of -- any time you have a slowdown and you have some contraction in the marketplace, you would expect a natural increase in the pressure from the OEM. We would say that a vast majority of our products are handled under some type of a longer-term contract. And so there is some pressure, incremental pressure that you get. Really, the pressure that I would say affects the margin more than that is really the tariff conversation and the electronics...

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

Demand.

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

Demand issues that are causing some tighter markets on the pricing side. So we look at those as probably the larger impact to our overall margin; in other words, the supply side and the tariff side than the requests from OEMs at this point.

Operator

Our next question comes from James Picariello with KeyBanc Capital.

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

So regarding your guidance framework, thinking about the cadence for the year, the production backdrop for 2019 obviously calls for a second half-weighted year, given what's going on in China and Europe. I mean, do you have any color? Or would you be willing to share any color on your first half versus second half breakout as lower volumes play out in the first half? How are you thinking about margins through the year?

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

So as it relates to volumes, yes, I think the first half is definitely showing some weakness on a comp level as it relates to our primary markets. As it relates to margins, we typically see margin compression in Q1 and Q2. And the reason for that is our APR schedule. So if you think about annual customer price-downs, they typically happen in the first quarter. But we don't typically get some of that cost out of our components because of our inventory levels until, call it, mid-second quarter, so you see a little bit of pressure. Similar to this year, margins tend to improve over time as you get through the calendar year. So as it relates to that, that's how we kind of see our year unfolding as it relates to margin -- gross margin levels.

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

Do you think the first half gross margin levels could trend below the low end of your full year guidance range? Or is that pretty safe, you think?

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

It's definitely possible. I mean, a lot of it comes down to what the mix looks like in the quarter as well, not just the APR schedule and the growth rate. Mix is the biggest kind of unknown in a market like this. Certain mix factors play into that equation. Because in Q4, sales was weak but mix contributed and our actual manufacturing performance helped kind of boom the margin sequentially, even though sales growth rates were lower than what we expected. So it's definitely possible, but it's not out of the realm that we would see margins potentially flat in Q1.

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

Well, I think -- and I think the bottom line is right now, if everything sticks to the forecast we've put together, each quarter was at -- with inside the year's margin guidance, obviously, you can have 50 basis point swing just based off of mix. That's assuming that even sales hold up. So it takes a sales decline and a mix change in order for us to fall outside of that range.

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

Understood. And then -- just going back to the FDM shipments, obviously exited 2018 at a strong rate, 390,000. You got the target for 500,000 this year. I mean, based on the demand that you're seeing and the positive reception, do you see upside to that number for 2019? Could you achieve that 500,000 run rate sooner than before year-end? And then, obviously, the competitive dynamic is a little different for this product. You're going to -- going up against a different competitive set. Gentex is obviously winning its fair share. Just interested if you have any -- the latest developments on just what you're seeing from a competitive standpoint.

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

Yes. No, I think, yes, you're absolutely right. Like we said before, if we didn't achieve that at least 0.5 million units in 2019, we'd be wildly disappointed with that performance. So we fully expect and hope that we'll be able to accomplish that 0.5 million units well before the end of the year. In terms of the competitive set, one of the things that's interesting is we believe we have a very unique product, like Neil mentioned in his comments. The combination of our auto-dimming technology and marrying that with our digital vision systems, we believe it's a pretty unique and proprietary solution. We believe OEMs see the value in that combination. And like Neil mentioned in his comments, the eighth OEM award that we received in Q4 and the projection that we'll have another one of the first half of '19, that's exciting because it starts to pave the path for what this -- what our digital vision solutions can look like in the car of the future. And what's exciting there is they are a step-up in content and revenue. They do require, obviously, a tremendous amount of R&D and a lot of engineering effort to get those into production. And so when we talk about -- we did talk about this before, but when you do think about that step-up in R&D, it's more -- launching one of these systems is much more complicated than launching a traditional base auto-dimming mirror. And so part of that R&D resources aren't just going towards new technologies. They're also going to the launch of things like Full Display Mirror, which are much more integrated and much more difficult to engineer into a vehicle solution.

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

Got it. And so the Toyota RAV4 and the ninth OEM that's soon to be announced, will they be using your in-source camera or not?

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

The ninth OEM will be using our camera, but the Toyota RAV4 does not use our camera. And actually, let me clarify, the eighth -- I should have said, the eight OEM, not the ninth.

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

The ninth hasn't been determined yet.

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

Yes, we haven't locked the ninth in. The eighth OEM is using our camera, then the Toyota is not.

Operator

Our next question comes from Ryan Brinkman with JPMorgan.

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

It looks like in 2018, you outgrew the markets you're predominantly exposed to by about 4 percentage points, according to the release this morning. And then preliminary outlook for 2020 suggests outgrowth of 2.5 to 7.5 points, which is a bit better at the midpoint in comparison to 2018 in terms of outgrowth. Looking at 2019, however, it seems like you're looking for sales growth somewhere between roughly in line with the industry to like 5 points of outgrowth. So at the low end of the midpoint, outgrowth is softer in '19 than either '18 or '20. Can you talk about the reasons for that? And then what accounts for the range of revenue guidance in 2019? Is that due to a range of industry production in 2019 versus the single point kind of 0.5% growth in the release? Or is it due to a range of industry outgrowth? And if so, what are the swing factors there?

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

Sure. Actually, it's really a combination of all the above. I mean, if you look at our weighting in terms of industry outperformance, you also have to look at the segmentation of the industry and how much are we outgrowing our segmentation. And so what we're concerned about, what we saw in Q4, was the segmentation was off really from a dollar standpoint, the most in C, D and E. And so that affects us, obviously, much more than A and B segmentation issues. So we're watching that. One of the other factors that you have to look at is our projection of what the headwinds are to some of our SmartBeam and Driver Assist business heading into '19. So we're predicting about a 2% headwind there. So if you look at our organic growth rate, without those losses, we're solidly in that mid-single-digit outperformance versus the underlying market. So that's not a change. It's really just a function of how much of those headwinds on the products side are going to play out in 2019 and what impact will they have on revenue.

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

Okay, great. And then kind of just checking with you on some of your sort of nonmirror initiatives, so for example, the dimmable glass that was talked about at the Investor Day, the sort of tollbooth pass initiative, some of the nonautomotive HomeLink applications, et cetera. I know they're not generating a lot of revenue now, but I presume there's sort of behind-the-scenes developments in terms of how you're thinking about these opportunities and maybe even discussions with the customers that you can talk about.

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

Yes, absolutely. I think in terms of -- we'll start with the revenue-generating one first, so let's start with kind of Integrated Toll Module. That begins to generate its first revenue here in 2019, and so that's exciting. At that first OEM launch, like we mentioned before, that is Audi on the e-tron vehicle as it debuts, really, in the first quarter of 2019 in the North American market. So that's going to be an exciting launch for us. We do -- we have announced before, we have 2 additional OEMs who have now sourced us a product for ITM. Those are about part of -- if you look at starting in '19 with Audi, you're about late 2021 before you see that next OEM launch with Integrated Toll Module. So it is going to be a phased-in approach over the next several years. But it's a brand-new product, something that's brand new to the market. So we're excited about what those opportunities look like. When you start looking at our digital vision systems, so camera monitoring systems and our large area devices, so sunroofs or electrochromics and other applications, those are really about a 3-, 4-, 5-year-out kind of horizon for us. And really, what we're looking at is a combination of probably another 2 years of very solid R&D effort and then a sales process and then a launch process within the OEM. In other words, a year for them to make a decision and then a couple of years after that decision before you're ready for production. So there's a tremendous amount of work going into those areas. Unfortunately, they're not revenue-generating yet.

Operator

Our next question comes from David Whiston with Morningstar.

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

I guess, first, a quick clarification on the advanced feature base. Was that 55% advanced or 55% base?

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

55% base.

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

Base, okay. And on the weakness to both the OEMs and the Tier 1 customers, is the Tier 1 weakness -- I don't know if you can name anyone here, but is that primarily a Magna that's to a corrected player? And then is there a specific geography or vehicle program driving that vehicle segment? And then on the OEM side, this has been a couple of times now where they've been way off on their estimates and thrown you guys a curveball. Do you think that's -- I would imagine WLTP is pretty much packed at this point. So do you think they're just overestimating demand?

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

Well, I think -- yes, well, first the Tier 1 adjustments, there's 2 factors. It's not just outside mirrors anymore. So after the HomeLink acquisition, we have a lot of our HomeLink business that ships through Tier 1. So there's a tremendous amount more customers for us on the Tier 1 side than what there were 4 or 5 years ago, and that was spread out over multiple Tier 1s. So we believe it was driven, in general, by the production cuts in Q4 and then, obviously, some of the anticipation of production cuts at the first half of 2019. Unfortunately, there's not a lot of data that we get from our customers when they make these changes. So you're left just kind of extrapolating releases and call-offs versus what you see in the production forecast and trying to assess what changes were driven and for what reason. Dave, I'm sorry, I think I forgot the second half of your question, that was?

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

OEM.

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

Well, you answered a bit of it. On the OEM side, it's -- I guess, what I'm getting at is, are they -- do you get -- I know they're -- it sounds like they're not giving you a lot of info. But do you get the impression they're getting a bit more worried about the macroeconomic environment?

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

Yes, I think that's what we're seeing. In other words, you're seeing 2 things. One of them is demand -- potential demand softening, at least around the high end of the market, the C, D and E segments. Those volumes were off quite a bit versus the forecast going into the -- and these changes that we talk about are beginning of October through -- then through actuals. So they were very short-ranged changes in that production level. I think some of it is OEMs probably addressing demand changes in their markets. I'd -- we would assume that it's not a lot of WLTP related. We know there are still some flow-through; in other words, vehicles that probably weren't fully -- in Q4, that weren't fully authorized for production again during the entire quarter. So it may have affected it some. We wouldn't expect that to be a massive change in 2019. In other words, we wouldn't think that WLTP would impact 2019 guidance. It'd be more about the macroeconomic issues and what OEMs are seeing.

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

Okay. And also on Brexit, have you done any thoughts on what would a hard exit cost Gentex? I know you don't have much FX exposure. It could certainly impact the vehicle volumes going from Germany to the U.K.

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

Yes. So on a direct-to-Gentex issue, we really don't have any impact from that because we have sales and engineering folks in the ground -- on the ground there but pretty low dollar exposure. If you look at the impact to the overall economics and what does that mean for the OEMs in England that are trying to export, if you look at the impact to them and to the overall economic situation, that's probably the most concerning for us is what does this do to Europe in general, what does it do to demand and what does it do to demand for -- of vehicles that have exposure to Brexit.

Operator

Our next question comes from on the Tier 1 adjustment comment. Is there some improved visibility to volumes going forward given kind of the anticipation of first half production cuts that now seem to be baked in by most in the industry?

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

Well, in our releases, which we get -- I mean, we get anywhere from -- depending on the customer, we're getting anywhere from 4 to 12 weeks worth of release information. Typically, what happens is the releases are fine, and they look like what we would expect them to. The problem is when you go from the release stage to the actual shipment, and that's when the changes typically manifest themselves. And so one of the struggles we have is not that we can't look out and see the releases. It's that they don't actually consume all the releases that they give us. So you're actually building more than you probably need, more than they even want, but they don't communicate that until they come for pickup. And so that's one of the struggles with predicting these changes is it's very difficult, it's incredibly last-minute. And so we continue to see releases look fine. They look like they should for the quarter. The question is whether or not those releases will turn into actual shipments.

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

Okay, great. That's helpful. And then just following up on the North American exterior shipment question earlier. I think you referenced it ramped up in the summer of '18. Do you expect that to track more in line with your core volumes going forward? Or should we expect a strong first half contribution into '19 as well?

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

You'd expect the comps in the first half of '19 to be more like the second half of '18 because those are program takeovers. So you should get a full year of those comps where you should see the North American strength in outside mirrors. Beyond that, do we see them back? Once those comps are in line, then you'd expect them to be more in line with normal growth rates.

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

Okay, great. And then last one for me, and I'll pass it along. You referenced you were modeling out, I think, adjustments versus IHS into your 2019 revenue forecast. Are you taking a similar approach to building in any type of delta versus IHS with your 2020 growth targets?

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

Yes. When we look at -- Yes, exactly -- when you look at the 2019 and 2020, IHS is showing about 1% growth for both of those years. Yes, we're probably a little more pessimistic about that overall production level. And we're definitely watching very closely the segmentation inside of those total production numbers, so what does C, D and E show for 2019 and what does it show for 2020. And so we continue -- we get that data. We use it. We also do make manual adjustments to that data, depending on our sentiments around what's going on with our customers and what we see and estimate from a take rate standpoint.

Operator

Ladies and gentlemen, this does conclude today's Q&A portion. I would now like to turn the call back over to Josh.

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

Thank you, everyone, for your time and all the great questions today. We hope you have great rest of your week. This concludes our call.

Operator

Ladies and gentlemen, you may now disconnect, and have a wonderful day.
