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GNTX.OQ - Q1 2024 Gentex Corp Earnings Call

EVENT DATE/TIME: APRIL 26, 2024 / 1:30PM GMT

OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to Gentex Reports First Quarter 2024 Financial Results Conference Call. (Operator Instructions) Please be advised today's conference is being recorded.

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

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

Thank you. Good morning, and welcome to the Gentex Corporation First Quarter 2024 Earnings Release Conference Call. I'm Josh O'Berski, Gentex's Director of Investor Relations, and I'm joined by Steve Downing, President and CEO; Neil Boehm, CTO; and Kevin Nash, Vice President of Finance and CFO. This call is live on the Internet and can be reached by going to the Gentex website at ir.gentex.com.

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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 First Quarter 2024 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.

Before we jump into our prepared remarks, I want to take a moment to address our upcoming Annual Shareholder Meeting and the proxy vote. Glass Lewis has recently released their proxy voting recommendations for Gentex. Their analysis lacked factual and logical accuracy on multiple fronts. I would like to briefly address a few of these items.

Regarding Board oversight of Cybersecurity and Human Capital, both of these items are detailed in our proxy. Oversight for these functions are part of the Audit Committee's listed duties. They are included on Page 12 for Cybersecurity and Page 18 for Human Resources. Regarding our company reported percentages of racial and ethnic minorities on the Board, we follow NASDAQ's guidelines for disclosure. This information is included on our website in the Board of Directors section and at ir.gentex.com and also included each year in the back of our annual report.

Regarding the recommendation to vote against our Nominating and Corporate Governance Committee Chair, Ms. Leslie Brown, due to a lack of female representation on the Board, we encourage shareholders to ignore Glass Lewis. Since 2016, when Ms. Leslie Brown joined our Board as our first female Board member in the company's history, Gentex has continued to identify and nominate qualified, capable, intelligent thought leaders to our Board. In this process, we have added 7 new board members to our Board, and the new Director nominee, Dr. Bill Pink, will be our eighth new Board member, if elected in this year's vote.

Each of these new members and our current new director nominee have exemplary backgrounds, capabilities and experience. Of these new members, 2 have improved the Board's gender diversity and 3, including Dr. Pink if elected, have improved the Board's racial diversity. If we assume that all of our director nominees will be elected as identified in the proxy, this means that 5 of our last 8 member additions will have improved diversity. We believe the work Ms. Brown is doing as evidenced by the sustained growth in diversity on our Board is indicative of our performance and the company's progress.

Glass Lewis' recommendation to vote against a female board member, because there are not enough female board members is as illogical as it sounds. We hope that Glass Lewis updates their policies to consider the chair's gender in this process as well as the progress we've made as a company toward increasing diversity on our board. I would welcome any calls with investors, who use Glass Lewis for their proxy voting recommendations, and I'm happy to clarify Gentex's position on items contained within these reports.

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

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

Thanks, Josh. We got that out of the way. For the first quarter of 2024, net sales increased 7% versus last year to $590.2 million, despite the fact that actual light vehicle production declined by 3% in our primary markets. It's also important to note that light vehicle production declined from the beginning of quarter forecast, which resulted in revenue levels being approximately $20 million lower than our original expectations.

Despite the lower-than-expected light vehicle production, revenue for the quarter was not only a company record, but also represented a 10% outperformance versus the underlying market. The revenue growth in the first quarter was driven by strong content growth because of higher launch rates and increased take rates of our Full Display Mirrors and other advanced features and strong growth in our outside auto-dimming mirror business which has been the case for the last several quarters.

The work we have been executing to increase our total number of features, including investments in additional electronic technologies is beginning to provide additional revenue growth opportunities, while derisking the business by reducing our dependence on light vehicle production. For the first quarter of this year, the gross margin was 34.3%, which was an increase of 260 basis points versus the first quarter of last year. The increase was the result of raw material cost reductions, higher sales levels, customer price changes made after the first quarter of 2023 and manufacturing-related efficiencies.

We continue to make very good progress on our margin recovery plan that we estimated would take until the end of 2024 to complete. When compared to the fourth quarter of 2023, the gross margin declined by 20 basis points. However, it is important to note that during the fourth quarter of last year, there was approximately 50 basis points of gross margin benefit stemming from onetime customer cost recoveries.

Additionally, the gross margin was in line with our expectations despite revenue levels that came in below the beginning of quarter forecast. Further improvements in gross margin that we have targeted for the rest of this year are dependent on sales levels, product mix, raw material cost reductions and further efficiencies in manufacturing. We remain focused and confident in the gross margin recovery plan that we established last year and will continue to execute throughout the remainder of this year.

Operating expenses during the first quarter were $72.9 million compared to operating expenses of $61.5 million in the first quarter of last year. The increase in operating expenses are primarily due to engineering, staffing and related professional fees as well as the addition of the eSight engineering and sales teams after the acquisition. Our operating expenses are trending in line with our expectations for the full year, with increases primarily focused on R&D. Operating expenses are expected to continue at the current pace with some additional growth forecasted in the second half of this year.

As we continue to invest in new products and technologies, new business awards, VA/VE initiatives for cost optimization of our bill of materials. As a result of the higher sales levels and increased gross profit, income from operations for the first quarter of 2024 increased 14% to $129.3 million. Net income increased 11% to $108.2 million and earnings per diluted share increased 12% to $0.47 per share.

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

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

Thanks, Steve. Automotive net sales in the first quarter increased by 7% to $577.6 million despite a reduction in auto-dimming mirror unit shipments of 2% for the quarter and light vehicle production in our primary markets declining by 3% compared to the first quarter of '23. Other net sales in the first quarter were $12.6 million, compared to $13.3 million in the first quarter of '23. This was driven by a $2.5 million decrease in Fire Protection sales, which was partially offset by a $1.8 million increase in dimmable aircraft window sales compared to the first quarter of last year.

Share repurchases. During the first quarter, we repurchased 1.2 million shares of common stock at an average price of $35.84. And as of March 31 of '24, the company has approximately 14.7 million shares remaining available for repurchase from the previously announced plan. We remain committed to repurchase additional shares in support of our capital allocation strategy. But share repurchases will vary from time to time and will take into account macroeconomic issues, market trends and other factors we deem appropriate.

Looking at the balance sheet. The balance sheet comparisons mentioned today are as of March 31 of '24 and compared to December 31 of '23. Cash and cash equivalents were $249 million compared to $226.4 million. Short-term and long-term investments combined were $311 million, up from $299.1 million, which includes fixed income investments as well as the company's equity and cost method investments. Accounts receivable was $341.6 million, up from $321.8 million due to the higher level of sales during the first quarter. Inventories were $436.6 million, up from $402.5 million and accounts payable increased to $191.8 million from $184.4 million.

Looking at the preliminary cash flow items. First quarter 2024 cash flow from operations was $129.9 million, compared to $120.9 million in the first quarter of last year. CapEx for the first quarter was $31.9 million, compared to $42.8 million in the first quarter of '23. And depreciation and amortization was $24 million for the first quarter compared with $24.7 million for the first quarter of last year.

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

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

Thank you, Kevin. In the first quarter of 2024, there were 31 net new nameplate launches of our interior and exterior auto-dimming mirrors and electronic features. This is the highest first quarter launch rate for the company since 2015 and over 60% of these net launches were advanced features. For the advanced features in the quarter, Full Display Mirror, HomeLink and outside auto-dimming mirrors led the way.

Now for a Full Display Mirror update. We're excited to announce our 16th OEM customer for Full Display Mirror, Polestar. Our Full Display Mirror shipments to Polestar for the Polestar 4 vehicle, which will be available in all of our major markets globally. The addition of this OEM customer helps to further demonstrate the global appeal of this technology as well as its acceptance on different vehicle architectures.

In addition to the new OEM customer launch, we have seen great growth and expansion of the technology at our existing customers. We are currently shipping Full Display Mirror on over 110 nameplates globally, and we are confident in our 2024 FDM shipment guidance of shipping an incremental 500,000 FDM units above the 2023 unit shipments. Also in 2024, we expect to announce shipping Full Display Mirror to at least 1 additional new OEM customer.

Calendar year 2024 started off as an extremely busy launch year. The Gentex project and program teams are working hard to prepare the automotive and nonautomotive products for production. While the operations team prepares to build and ship these exciting technologies. We're excited about the continued growth we're seeing with our technologies and appreciate all the hard work and dedication that the team at Gentex is putting in to ensure we execute flawlessly.

Also, while we're launching a lot of products and technologies, we are continuing to evaluate opportunities to reduce the bill of material of existing programs as well as execute on the VA/VE launches we currently have in process. These changes are critical for our margin recovery and stabilization plan, especially as we move into 2025.

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

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

Thanks, Neil. The current forecast for light vehicle production for the second quarter of 2024 and full years 2024 and 2025 are based on the mid-April 2024 S&P Global Mobility forecast for light vehicle production in our primary markets of North America, Europe, Japan and Korea, plus China. Light vehicle production in these markets is expected to increase 3% for the second quarter of 2024, versus the same quarter last year. But when looking further at our primary markets, those regions are forecasted to decline by 2% compared to the second quarter of 2023.

For calendar year 2024, light vehicle production in our primary markets plus China is forecasted to be flat when compared with light vehicle production for the prior year, but is expected to be down 1% when comparing only our primary markets. Light Vehicle production for calendar year 2025 in our primary markets, plus China is forecasted to increase by 2% versus calendar year 2024, but is expected to be flat when comparing only our primary markets.

Given these production volume estimates, we are making no changes to our previously provided guidance for 2024. Revenue for the year is expected to be between $2.45 billion and $2.55 billion. Gross margins for the year are expected to be between 34% and 35%. Operating expenses are expected to be between $295 million and $305 million. Our estimated annual tax rate is forecasted to be between 16% and 18%. Capital expenditures are expected to be between $225 million and $250 million. And depreciation and amortization is forecasted to be between $95 million and $105 million.

Additionally, based on the company's current forecast for light vehicle production for calendar year 2025, the company still expects calendar year 2025 revenue of approximately $2.65 billion to $2.75 billion.

We are on pace for record-setting revenue in 2024 and 2025 and with much of that growth being driven by expansion of our product content, including advanced feature growth and new electronic technologies. The outgrowth versus the market demonstrates that our product strategy is succeeding with our customers and consumers, and we are excited to see several of the new technologies that we have invested in over the last several years begin to generate revenue and profitability for the company.

Revenue outperformance has been exciting to see, but I'm also very pleased with our progress toward improved profitability. While a tremendous amount of work remains to be done this year as we execute additional cost improvement initiatives, we remain confident in our ability to accomplish our plan of reaching a 35% to 36% gross margin range by the end of 2024.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Luke Junk with Baird.

Luke L. Junk - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Maybe if we could start with just any updated indicators for full year FDM volumes, appreciate it. You're reiterating the guidance that you provided previously, but just hoping we can maybe talk in finer more detail on any changes you're seeing in take rates at customers, which it seems like into that and then back on the envelope, first quarter numbers seemed very strong. Just trying to reconcile that with what it might mean to the full year and any potential upside?

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

Yes. I would say on FDM volumes for the year, we're right in line with that initial beginning of the year forecast. If you look at take rates, we kind of had a pretty good indication at the end of last year what take rates for this year were going to be. If anything, we feel like we were probably [hair] conservative as we tend to be when we estimate launch, especially launch take rates are a little more difficult to predict than mid-cycle take rates.

If you look at how many -- how long we've been in production now with FDM and which OEMs we've been on there with, we feel pretty comfortable what's happening this year. Obviously, the back half of the year always has a little bit of risk as it relates to interest rates and what's going on economically. But we're off to such a strong start to the year, we feel really confident in our ability to hit those numbers for the year.

Luke L. Junk - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

And then switching gears to margins and just the gross margin walk from here. Just trying to unpack how much lift, if you will, was in the first quarter margin from things that you're working on this year versus remaining areas of opportunity? I guess, especially thinking of already negotiated supplier concessions based on my understanding, somewhat more mechanically rolling going forward. So I'm just trying to square the 1Q margin versus the full year as well.

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

Yes. So -- as you know, a lot of the work in 2024 was going to be about customer price -- supplier price reduction. So that's probably one of the bigger beneficiaries in the quarter. So if you look at -- compared to the first quarter last year, raw material price reduction is about 150 basis points of improvement versus last year. Our manufacturing efficiencies, so overhead and the like, is about 100 to 125 basis points of improvement. You look at labor, scrap and yield that was probably 75 basis points of improvement. Freight and duty was 25 to 30 basis points. And then that was offset by about 100 basis points of pricing reductions to the customer. And so that gets you in the ballpark of kind of where we ended the quarter from a margin from 31.7% to 34.3%.

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

Yes. And then Luke, from Q1 now through Q4, how we expect to get to the 35% to 36% is really driven by a couple of key areas. Number one is the growth in the business should provide some overhead leverage, really the next biggest one is going to be focused on PPV. So when we refer to PPV, we talk about what is the purchase price variance from beginning of the year to end of the year that we're getting from our supply base. First quarter is always a little thin. We have inventory left over from prior years. So you don't get the full read-through in Q1. So we would expect some margin tailwinds from price reductions from the supply base.

And then on the manufacturing side, you're really looking at efficiencies and scrap over time and yield loss that we expect to achieve throughout the year.

Luke L. Junk - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

That is all very helpful. And then just a smaller item nonoperating, but just other income swung to expense this quarter, just what was going on there and what we should expect the rest of this year in that line?

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

Yes. That's really a combination of fair value adjustments of some of our tech investments and then mark-to-market adjustments of some of our more public investments. So that will be volatile a little bit as you go through new rounds of investments or again, some of that stuff is subject to mark-to-market conditions.

Operator

Our next question comes from Ron Jewsikow of Guggenheim Securities.

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

Looking at North American mirror shipments specifically, down 7% versus the same period last year. Is there some kind of timing comparison issue we should be aware of? Or anything else? I guess, it's quite a big delta versus light vehicle production. Just trying to get a sense of kind of what drove the unit shipment declines?

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

Yes. There's always a timing issue that exists. Any time you're talking about market trends and what's happening when you're shipping versus when they're getting deployed and inventory. And then the other timing issue, I was caution everyone to think about, too, is imagine back 18 months ago, it started supply shortages happened. There was some stockpiling happening at OEM levels. So that we know there was some -- definitely some pull ahead from certain OEMs, who are trying to make sure they had inventory in-house. And then obviously, that shakes out later once they realize they may have overbought slightly.

But I think the real big issue and probably the primary reason why you saw that change is certain OEMs, in particular, in the market were more impacted and have been more impacted given what's going on, and so some of those OEMs were struggling more than others. So I'd say it's really more of a mix issue even more so than the timing issue.

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

Okay. Yes, that makes perfect sense. And on the 35% to 36% gross margin exit rate, I guess, in light of, I think, pretty strong first quarter gross margins. And they were in line with your expectations despite lower revenue based on your commentary. So I guess, could you help us characterize the exit rate? Do you expect to touch 36% by the end of this year, reported on a quarterly basis? And any color on PPV that you expect to get from here as well would be helpful.

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

I don't think we'll get above the 36% by the end of the year. I think that's probably more of a '25 plan depending on growth rates in '25. But I'd still say kind of midpoint of that range is absolutely achievable by the end of this year. So -- if you look at -- to your point, Ron, if you look at where we started Q1 at it was better than we had initially anticipated given what's going on despite the $20 million loss in revenue given some of the OEM changes.

So, we feel really good about where we're sitting here. And in fact, sequentially, the margin actually improved from Q4 if you take out that onetime pickups in Q4 of last year. And so -- and with very little -- not a lot of help from the PPV side or from the supplier cost side in Q1, we feel really strongly that we should be sitting midpoint of that range by the end of this year.

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

Perfect. And if I could just sneak one more in. Steve, you called out in the release kind of your ability to move beyond the kind of auto CPV light vehicle production model. Can you elaborate on that? And I guess given that it was in the release, should we interpret that as improved line of sight to any of these kind of new technologies?

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

Yes. I think there's 2 major points there. Number one is as we've started to invest in new technologies, some of the partnerships that we formed, some of the acquisitions, we're starting to introduce new technologies into automotive that might have much higher ASPs. That starts to eliminate obviously some of the risk factors associated with total light vehicle production. Obviously, if you're an automotive supplier,you're never going to get away from it completely. But when your average product is a base auto-dimming inside mirror at $20. Obviously, you need to sell a whole lot of those in order to make an impact in total revenue, versus when we start talking about certain feature sets that have ASPs in the hundreds of dollars range. You can start to -- just like FDM, right, you can really start to grow even if there's a negative trend in the industry.

And so while one of the focuses we've had as a company over the last several years is saying, hey, we really need to focus on making sure we find dollar content that adds value to our customers and also to the consumer, to try to eliminate some of that variability that happens and we know what's going to happen all the time in automotive light vehicle production. And then beyond that, a lot of the other tech investments have been focused on areas outside of automotive. So when we look about the place product launching, the eSight acquisition. There's a lot of other technologies that we're going to be launching later this year, early next year that we're excited about, because we think there's some growth opportunities outside of the automotive segment.

Operator

Our next question comes from James Picariello with BNP Paribas.

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

My first question is just on your chip redesign efforts. To what extent has Gentex already benefited from this and what actions are still to come potentially on that effort?

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

Yes. From a chip -- from an overall chip design or redo of a product design, if we back up, there's a couple of different versions. So I want to make sure I'm answering it properly for you. So the redesigns back to component shortages, all of that activity, that wasn't about the cost reduction VA/VE pieces. We initiated some of the VA/VE initiative designs early this year, at the end of last year, but we won't really see any pickup of that until we get into more like '25, late '25 before you start seeing some of the benefit of that. So we are in progress of that. We've got launches active, and we'll continue to go through that as we evaluate other designs that we can try to pull bond costs out of it as well.

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

Yes. So as a general rule, if you look at the end of '23 and say, everything done before that on the redesign side, it was all about just trying to get components to make sure we can make shipments. Everything that happened really at the end of '23 and going forward is going to be more focused on VA/VE activity.

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

Got it. And then as we think about the China opportunity to really tap into that market. Just wondering if there's a high-level update on your progress there? And then just on CapEx, my follow- on CapEx, you've got the range of $225 million to $250 million in the first quarter, $32 million came in pretty light toward that range. Just curious what drove the timing there and what investments look like for the rest of the year toward that range?

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

Yes. So I would say on the CapEx side, I'll go in reverse order with you. But if you look at CapEx, yes, it definitely came in a little lighter than we were anticipating. That's really a timing issue more than anything. From the time you place the order, you got to actually receive the equipment. Obviously, we got several large building projects underway this year as well. So we think the CapEx will definitely be weighted towards the second half of the year, for sure. Plan is to make up that ground and try to get the footprint in place and the capital equipment in place, especially for some of the larger projects we've been investing in.

If you start looking at some of those technologies, especially large area devices, they are Cap heavy -- CapEx heavy projects and so we know they're going to draw that engineering effort prototype effort. All of those are going to require some heavy CapEx. So we're excited for the opportunity in the market because we believe there is a lot of interest in those technologies, and we will be investing in those probably a little more towards the back half of this year.

On the China front, yes, obviously, the market continues to grow. I mean it's amazing when you look at total light vehicle production 7 years ago, what percentage of that was done in China versus what it is today. Obviously, we know there's a lot of opportunity there. Right now, our primary focus and where our wins are coming from are base auto-dimming and outside auto-dimming.

On the advanced feature side, we do have a couple of FDM projects as well there. The competitive side though is the difficult side in China. Whenever you're importing a heavy electronic content, especially in a mirror form factor, the duties and tariffs that have increased a lot over the last 7 years really start to limit our ability to grow at the rate we would like to. So it's something that we're continually looking at and trying to make sure we've got the right supply chain model built in place to help support and grow inside of that market.

Operator

Our next question comes from David Whiston with Morningstar.

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

I guess you called out in the press release some advanced feature growth beyond FDM. I was just curious what features lately have been getting better take rates to drive that revenue outperformance?

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

Yes. If you look at -- I mean, really the features that we have internally that we've been talking about for a while that have really shown some strength is a combination of, a, FDM, obviously; DVR projects; ITM is back to producing good revenue; HomeLink actually has held up really well. Beyond that, kind of what we're referencing are some of the newer technologies that we've shown at CES that we believe over the next several years are going to help drive growth, a lot of interest in driver monitoring and cabin monitoring. And a lot of the other kind of advanced features that we've shown at the CES show, obviously, are still starting to garner a lot of interest.

But if you look at the -- what's cool about those product launches as they are, a, using combination with existing mirror platforms, and we're able to usually pretty quickly add feature content into a vehicle by going through our current geography being the mirror locations.

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

Okay. And what international regions are driving exterior growth?

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

So if you look at where we've been growing a lot on outside mirrors, if you -- we've had a lot of success, obviously, in Western Europe, and Japan and Korea. Obviously, the other one, although not as quite as big from a total volume standpoint, if you look at the penetration of our outside auto-dimming into the China market has also been growing very quickly.

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

And you mentioned some large building projects this year. You guys had already completed an exterior plant. Are you building another one?

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

We're building a new plant on our North Riley campus and that one will be -- that one should be completed this year and ready for occupancy probably by midyear. If you look at the other one, we had made an announcement about a daycare center that got delayed based on some regulatory support issues that we need to help with. So we'll be completing -- we'll be starting to work on that here soon. And then we have a brand-new distribution center that we have been working on really for the last 12 to 18 months that will be going into -- getting ready for production this year as well.

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

And can you remind me what's going in North Riley?

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

So that will be a combination of features. There's going to be some R&D area inside of that building for our large area devices. There will also be expansion of inside auto-dimming as well.

Operator

Our next question comes from Mark Delaney with Goldman Sachs.

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

Hoping you could dig a little bit more on the revenue cadence for the year. You spoke about some headwinds in the first quarter, and I'm hoping to better understand if you think that was purely due to customer program launch timing? Or is there perhaps a sign that LVP for the year is perhaps shipping out to be a little bit lower than you previously expected? And maybe talk a little bit more broadly on how you see LVP by region and if you have any different opinions compared to where S&P is forecasting?

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

Yes, I would say there was definitely a little bit of pullback by OEMs that wasn't really expected. So the question -- the million dollar question, obviously, is that a trend that's going to continue throughout the year? Or is it more just kind of a onetime occurrence? I think this year, just like the last couple of years, we've been a little bit more bearish on S&P's projections. And I think that served us really well in terms of our forecast. We've been a little more conservative, and that's really kind of always trended in our favor.

If you look at the regions, I think if you look at the growth throughout most of the year, China is kind of overperforming the rest of the market. So if you look at Western Europe, North America, especially and then Japan, Korea, we see those kind of relatively flat, really moving through the next 18 months. And so our forecast is really based on that type of a model. They're not over-the-top volumes by any stretch in one of those regions. So we don't feel like it's overperforming and therefore, needs to settle back down. If you look at it, we think those are pretty good stasis points in terms of light vehicle production in each of those regions.

When you look at our -- what's kind of driving our ability to outperform that, you start talking about feature content. And so when we look at each of those OEMs, their deployment of the technology how each OEM, including some of our customers talking about the fact they're focusing on higher-end vehicles, trying to look at dollar content to help offset the fact that total light vehicle production may never come back to where it was. That suits us really well. I mean what we try to work really hard on is making sure our products fit with the consumer and it drives revenue and profitability for our OEM customers as well.

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

My other question was trying to better understand some of the opportunities within China. I mean you spoke about selling in the China region. But when I think about the Polestar win you announced today, when you think about some of the ambitions of the China domestic OEMs to grow their businesses in Europe and in other international regions, South America and others. Maybe you can talk about your opportunity to support some of those China domestic OEMs or some of their international expansion efforts?

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

Yes. I think it's a very interesting model. If you take the global politics out of where cars are produced and where they're going to be moved to over time, given the fact that we have a good footprint in the North American market, which is where a lot of focus right now in terms of expansion and who's going to be trying to import vehicles here. If you think about production closer to the North American market in support of North America, we feel like we're structured really well to help capitalize on those.

The biggest challenges we have are obviously if something is produced completely in China and then exported. We have -- there's obviously the geopolitical side of the tariff structure right now that puts us in a little bit of a disadvantage. And so we'll have to get more creative if we want to capitalize on those opportunities in the domestic China market. Especially as it relates to high-end electronic content, because that's when the duties and tariffs really start to affect our competitiveness.

Operator

Our next question comes from Josh Nichols with B. Riley.

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

Great to see the margins come in better than expected for the quarter. In the vein of moving beyond the light vehicle production model, you talked about at your Investor Day recently. If you could provide any kind of updates on, I think, like driver and in-cabin monitoring maybe some of the earlier opportunities? I think you may be releasing something later with at least 1 OEM later this year. Any progress update on that? And also if you could just kind of touch on what the competitive dynamics of that type of offering look like?

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

Yes. So you're absolutely right. At our Investor and Analyst Day, we did talk about really having several awards in that space. It's a very difficult product to manufacture and build given the content and what it looks like and how we're trying to achieve it. So we're in launch right now with their engineering teams. We feel very good about where we're at. Obviously, there's a lot of learning that you do whenever you're launching a product of that complexity. But when we move through the end of '24 and into '25, we expect to have several launches of those -- of that type of product. And so it's exciting in terms of how -- what the competitive set looks like on that product. If it's a baseline version of DMS and CMS, especially on the DMS side, there's quite a few players, who could do it in different portions or geographies of the vehicle.

And so if you look at what we've been focused on over the last several years, most of the industry, a couple of years ago, was all focused on kind of center stack or right behind the steering wheel kind of locations for cameras. We are pushing hard on obviously going higher up in the vehicle so you could get an increased feature set. And that's the trend we're starting to see in automotive now as OEMs are really starting to come to grips with where you could position cameras in a vehicle and what other feature sets you can get.

So whenever you're dealing with base DMS, though, there's going to be more competitors lower margin profile but great revenue generation. And so what we're focused on these first few launches, making sure we execute flawlessly in terms of the technical aspects of the product. Longer term, as we add additional functionality and features, that's where we see opportunities for margin expansion.

And so that's one of the reasons why we made the acquisition in Israel to really focus on full cabin monitoring beyond just driver monitoring, because we believe there's a feature set there that can help drive revenue and profitability not only for ourselves, but for our OEM customers as well.

Operator

(Operator Instructions) Our next question comes from John Murphy with BofA.

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

Just one question on gross margin. I mean, historically, when you build a facility, there's been some pressure on gross and total margin, but that doesn't seem like that's what's happening this year. But sort of on the flip side, when it's done and starts to be filled up, the margins expand. That's not really part of the way you guys have kind of talked about margins more recently. I'm just curious, is there a potential is this facility in your North Riley campus gets ramped up in '25 and '26 that we could see upside to this exit rate of 35% to 36% gross at the end of this year?

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

Yes. I think probably not at the end of this year, but it's throughout '25 as that plant comes online and then start -- and it starts to drive revenue for the company. There is opportunity, obviously, for further expansion beyond that depending on what we fill it with, what kind of products we're getting sourced and what the total mix of the business is. Part of the reason -- there's really 2 major reasons why adding a plant doesn't have the negative impact that it used to have. Number one is just the law of large numbers. So as we've grown the incremental impact of adding a plan is less on an overall percentage basis of the business, so we're able to absorb that easier.

Number two is how we spend and how we bring plants on controlled over a better period. A and B, we're actually able to do it in a more likely time to revenue fashion. Instead of having this massive event where it's a cliff event where you're adding hundreds of people all at once. We try to -- we're actually able to scale that much better by moving product out of existing buildings to help fill. And so usually, we have a portion of that revenue already flowing through once the plant comes online, which helps us kind of soften that beachhead of on ramping a new facility.

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

That's incredibly helpful. And then just a second one on unit volume, down 2% in the quarter. Quarter was good, but that was up maybe a little bit lighter than we were expecting. As we think about the FY '24 guidance, you definitely haven't given us or at least, I don't recall you giving us unit volume forecast in that. Is that something you'd be comfortable giving us now? And what are your kind of thoughts for unit volume growth in '24?

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

Honestly, we've kind of moved away from volume estimates just because they are very cyclical. And then obviously, with -- as we've grown in the China market, even harder to predict than the rest of our markets. We tend to focus on the top line. And the reason why we do that is if you look at, there's a lot of puts and takes geographically and from a mix standpoint, but then also between OEM customers. What we do understand though is that with the growth in content, we're actually able to offset even some of those unit volume issues.

So, it's a little harder to predict. But quite frankly, this quarter is a prime example where, yes, there's some headwinds on the unit volume that we didn't love, but we were able to offset it, because we were getting more than a payoff on the FDM and the dollar content side. And so we're working really hard to be -- to change kind of what we're focused on. Number one is less dependent on total units in order to get to revenue growth. And then number two, a little less susceptible to mix changes, geographical issues, geopolitical issues and also certain OEMs that may be struggling from time to time.

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

Yes. It just seems like you may be on the cost of both unit and mix both being positive. So that's kind of what I was asking.

Operator

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

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

This concludes our conference call. Thank you, everyone, for your time today. We appreciate your participation and hope you have a great weekend.

Operator

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