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GNTX.OQ - Q4 2022 Gentex Corp Earnings Call

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OVERVIEW:

GNTX reported 2022 net sales of $1.92b, net income of $318.8m and diluted EPS of $1.36. For 4Q22, GNTX reported net sales of $493.6m, net income of $86.2m and diluted EPS of $0.37. Co. expects 2023 revenue to be approx. $2.2b.

CORPORATE PARTICIPANTS

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

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

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

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

CONFERENCE CALL PARTICIPANTS

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

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

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

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

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

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

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

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

PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to the Gentex Reports Fourth Quarter and Year-end 2022 Financial Results Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded.

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

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

Thank you. Good morning, and welcome to the Gentex Corporation Fourth Quarter 2022 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; and Neil Boehm, Vice President of Engineering and CTO; and Kevin Nash, Vice President of Finance and CFO.

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This conference call contains forward-looking information within the meaning of the Gentex safe harbor statement included in the Gentex Reports Fourth Quarter 2022 financial results press release from earlier this morning and as always shown on the Gentex's website. Your participation in this conference call implies consent to these terms.

Now I'll turn the call over to Steve Downing, who will get us started today. Steve?

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

Thank you, Josh. For the fourth quarter of 2022, the company reported net sales of $493.6 million, an increase of 18% when compared to net sales of $419.8 million for the fourth quarter of last year. The fourth quarter of 2022 revenue included cost recoveries from customers of approximately $15 million. Light vehicle production increased by 7% quarter-over-quarter in the company's primary markets of North America, Europe and Japan and Korea, which equates to an 11% revenue outperformance versus the company's underlying markets.

The gross margin in the fourth quarter of 2022 was 31.2% compared with a gross margin of 34.3% in the fourth quarter of last year. The gross margin in the fourth quarter of 2022 was primarily impacted by raw material cost increases, unfavorable product mix and increased manufacturing costs stemming from labor cost increases and inefficiencies created by customer order volatility. The cost increases were partially offset by cost recoveries during the quarter. The fourth quarter produced sequential improvements in gross margin of 140 basis points versus the third quarter of 2022 as a result of customer cost recoveries during the quarter as well as some improvements in leveraging fixed costs.

However, margins in the quarter were negatively impacted by sales that came in below our original forecast for the quarter, unfavorable product mix and increases in manufacturing costs. Heading into 2023, we continue to see strong demand for our products, which should result in record revenue performance for the year and will assist our ongoing efforts focused on margin recovery throughout 2023 and 2024.

For the calendar year, we expect margins to begin the year in the range of the fourth quarter margin profile and then improve as the year progresses, ultimately ending at a weighted average margin of 32% to 33% for 2023. Operating expenses during the fourth quarter of 2022 were up 7% to $59.7 million when compared to operating expenses of $56 million in the fourth quarter of last year.

Income from operations for the fourth quarter of 2022 was $94.1 million as compared to income from operations of $88 million for the fourth quarter of last year. During the fourth quarter of 2022, the company had an effective tax rate of 9.7%, which was driven by provision to return adjustments as well as increased benefits from the foreign-derived intangible income deduction and discrete benefits from stock-based compensation.

In the fourth quarter of 2022, net income was $86.2 million as compared to net income of $84.2 million in the fourth quarter of 2021. Earnings per diluted share in the fourth quarter of 2022 were $0.37 as compared with earnings per diluted share of $0.35 in the fourth quarter of 2021. For calendar year 2022, the company's net sales were $1.92 billion, which was an increase of 11% compared to net sales of $1.73 billion in calendar year 2021 and represented the highest annual sales in company history. Light vehicle production in 2022 increased by 3% when compared to last year in the company's primary markets but total revenue for the year outperformed the underlying market by 8% despite the many supply chain challenges and customer order volatility encountered during the year.

For calendar year 2022, the gross margin was 31.8% compared to a gross margin of 35.8% for calendar year 2021. The largest impact to gross margin on a year-over-year basis were increased raw material costs, increased manufacturing costs, higher freight and logistics costs and certain previously agreed to annual customer price reductions. For calendar year 2022, operating expenses increased 14% to $239.8 million when compared to operating expenses of $209.9 million for last year. For calendar year 2022, the company's effective tax rate was 13.8% as compared to an effective tax rate of 13.3% last year.

Net income for calendar year 2022 was $318.8 million, down 12% compared to net income of $360.8 million last year. Earnings per diluted share for calendar year 2022 were $1.36 compared to earnings per diluted share of $1.50 last year. I will now hand the call over to Kevin for fourth quarter financial details.

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

Thank you, Steve. Automotive net sales during the fourth quarter of 2022 were $482.9 million as compared to $409.6 million in the fourth quarter of '21. For calendar year '22, automotive net sales were $1.87 billion, which was a 10% increase over 2021. Other net sales in the fourth quarter, which includes dimmable aircraft windows and fire protection products, were $10.7 million, an increase of 5% compared to other net sales of $10.2 million in the fourth quarter of '21. Fire Protection sales increased by 37% for the fourth quarter of '22 when compared to the fourth quarter of '21.

Other net sales for calendar year 2022 were $44.2 million compared to other net sales of $33.9 million in calendar year '21. Fire protection sales in 2022 increased by 53% year-over-year, while dimmable aircraft window sales were down 33% in '22 compared to calendar year '21.

The company expects that dimmable aircraft window sales will continue to be impacted until there is a meaningful recovery of the aerospace industry and the Boeing 787 production levels improve. Share repurchases. The company repurchased 0.8 million shares of its common stock during the fourth quarter at an average price of $27.17 per share. For the year ended December 31, '22, the company repurchased 4.04 million shares of its common stock at an average price of $28.19 per share for a total of $113.9 million.

As of December 31, '22, the company has 20.8 million shares remaining available for repurchase pursuant to its previously announced share repurchase plan. The company intends to continue to repurchase additional shares of its common stock in the future in support of the previously disclosed capital allocation strategy, but share repurchases may vary from time to time and will take into account macroeconomic issues, market trends and other factors the company deems appropriate. Shifting over to the balance sheet. The items mentioned today are values as of December 31, '22 and are compared to December 31, '21.

Cash and cash equivalents were $214.8 million, down from $262.3 million, primarily due to capital expenditures and cash flow from operations. Short-term and long-term investments combined were $176.9 million, down from $213.1 million. Accounts receivable was $276.5 million, up from $249.8 million due to the timing of sales within the quarter. Inventories were $404.4 million, which increased from $316.3 million, primarily raw material, while up from December 31 of '21, inventory levels have decreased sequentially from $418.3 million.

The company continues to take a measured approach of inventory management, as the supply chain constraints are starting to lessen, and the company is looking at certain areas to reduce inventory levels. However, customer order volatility still remains and forecasting in the short term remains challenging, so the company will continue to have higher levels of certain components to help manage risk and meet customer demand. And accounts payable increased to $151.7 million, up from $98.3 million primarily due to increased inventory purchases, capital expenditures and changing payment terms. Let's take a look at preliminary cash flow items for the quarter and calendar year. Fourth quarter 2022 cash flow from operations was $101.8 million which was an increase from $69.1 million in the fourth quarter of '21.

And year-to-date cash flow from operations was $338.2 million compared to $362.2 million for calendar year 2021. Capital expenditures for the fourth quarter were $38 million compared with $30.8 million for the fourth quarter of '21 and calendar year 2022 capital expenditures were $146.4 million compared to $68.8 million for calendar year '21.

And depreciation and amortization for the fourth quarter was $23.3 million compared to $24 million for the fourth quarter of '21, and calendar year 2022 depreciation and amortization was $96.6 million compared with $99.1 million for calendar year '21.

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

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

Great. Thanks, Kevin. Earlier this month, Gentex participated in the 2023 Consumer Electronics Show. We utilized CES to showcase our current and potential future product portfolio. Our booth was designed to help automakers envision a path toward the autonomous age with scalable products and features ready for implementation on today's vehicles.

This year at CES, our automotive and aerospace customers were able to experience Gentex technologies in new and exciting ways. We displayed advanced vehicle and aircraft fuselage simulators that allow those in attendance to experience firsthand the benefits of our technology right on the show floor. Our unique vehicle demonstrator showcase the scalable yet holistic approach to driver and in-cabin monitoring. The driver monitoring system track the driver's head pose, eye gaze and other relevant movements to determine distraction, drowsiness, sudden sickness and readiness for the return of manual control in semiautonomous vehicles.

The system is easily expandable to include 2D and 3D cabin monitoring for detecting passengers, behaviors, objects and even presence of life. Our goal with this system is to provide solutions for today's vehicles and the transition to autonomous vehicles. And that means engineering a comprehensive and scalable monitoring platform based on our competency in digital vision and sensor fusion techniques. Our CES booth also highlighted the company's industry-leading Full Display Mirror, an intelligent rear vision system that uses a custom camera and mirror-integrated video display to optimize a vehicle's rear vision. The FDM also serves as a platform for additional innovation. Add-on features that we demonstrated included a mere integrated digital video recorder, scalable trailer cam system, touchscreen display, lane line projection overlays and mirror integrated camera for video conferencing or capturing photos within the vehicle cabin.

Also displayed at CES were large area dimmable devices, including sunroofs that darken on-demand or with system intelligence. And sunvisors that fall down like a traditional visor but include a clear dimmable panel that can darken on demand based on Sun load. We also highlighted small scalable dimmable devices that have many different use cases, including the ability to darken and improve contrast and visibility for transparent displays, (inaudible) sensors and dynamic adjustment of camera exposure.

Many of the products that we initially developed for the automotive industry are built on technology platforms and can be customized for other industries. For CES 2023, Gentex developed an aircraft fuselage simulator, that allowed us to demonstrate how these same technologies can be deployed into aerospace. These technologies included dimmable glass and smart lighting, where we utilize the camera system to control the location and color temperature of cabin lighting. Few slides also showed various dimmable devices, including our dimmable windows and further advancements in this technology for dimmable partition devices to create privacy and cabin separators. We also included various biometric systems where we demonstrated the use of facial recognition to create a personal experience for the passenger and then utilize iris-based biometrics for a more accurate identification of a passenger for secured transactions.

These technologies can make the flight experience safer, more enjoyable and more personalized. Overall, CES 2023 was an excellent opportunity for us to demonstrate to our current and, hopefully, some future customers. what is driving our business today and what things we're working on to drive our growth in the coming years. In terms of launches, for the fourth quarter of 2022, there were 27 net new nameplate launches of our interior and exterior auto-dimming mirrors and electronic features. Approximately 50% of these new nameplate launches were advanced features with Full Display Mirror and HomeLink leading the way.

Now for an update on Full Display Mirror. During the fourth quarter of 2022, we began shipping FDM on 7 new vehicle nameplates. These new vehicle nameplates are the Chevy Bolt EUV, the Kia Telluride, Mercedes Sprinter, the Subaru Solterra, the Lexus RX, the Toyota Prius and Toyota Sequoia. Including these 7 new nameplates in 2022, Gentex began shipping FDM on 18 nameplates, and are currently shipping FDM on 86 nameplates. The technology continues to have growing interest and growth potential, and we're excited to see how well this product is being received by our OEM customers and the end consumers.

2022 is an extremely challenging year, but the teams at Gentex did an outstanding job executing the high volume and extremely complex new launches that have been driving our new business growth, all while managing through the product redesigns that have been necessary due to component shortages that our industry has been facing. As we look forward, our launch rates continue to look strong. And as we continue to come out of this redesign cycle, I'm excited about our ability to refocus all of our development efforts to new products and technologies.

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 company's current forecast for light vehicle production for calendar year 2023 and 2024 and are based on the S&P Global Mobility mid-January 2023 forecast for light vehicle production in North America, Europe, Japan, Korea and China and can be found in our press release.

For calendar year 2023, light vehicle production in these markets is forecasted to increase 4% when compared to calendar year 2022 and is estimated to increase an additional 4% for calendar year 2024. Based on this light vehicle production forecast, the company is providing the following estimates for 2023. Revenue for the year is expected to be approximately $2.2 billion. Gross margins for the year are expected to be between 32% and 33%. Operating expenses are expected to be between $260 million and $270 million. Our estimated annual tax rate is forecasted to be between 15% and 17%. Capital expenditures are expected to be between $200 million and $225 million.

The company intentionally delayed capital expenditures in 2020 and 2021, given the mandated shutdowns and the industry downturn. During 2022, the intent was to spin that previously delayed capital; however, availability of materials and capital equipment further delayed that spend. As a result, 2023 and 2024 CapEx will be higher than our typical rate but represents the level of spend needed to support the book business driving our growth and future R&D projects.

Lastly, depreciation and amortization is forecasted to be between $100 million and $110 million for 2023. Additionally, based on the company's current forecast for light vehicle production for calendar year 2024, the company expects calendar year 2024 revenue growth of approximately 10% above the 2023 revenue guidance range of approximately $2.2 billion.

Calendar year 2022 will be remembered as a very difficult operating environment that was negatively impacted by customer order volatility, supply and component constraints, cost inflation and raw components, labor and almost every other facet of the business. As we look into 2023, we are working hard to make sure that this coming year will be remembered as the year where we broke through the $2 billion revenue threshold and continued the process of improving the margin profile of the business. While we fully anticipate continued margin pressure for the first half of 2023, we also expect that the margin will improve throughout the year with the work done this year, setting the stage for further margin improvement throughout 2024. While there may be some lingering effects from supply and labor constraints that could limit global light vehicle production growth rates, we still believe our forecasted growth rate, in combination with our focus on cost control and other margin improvement efforts will move us to our targeted margin profile of 35% to 36% by the end of 2024.

Our current model for the next 2 years includes an improving revenue environment driven by our product portfolio as well as improving margins from a better supply environment and internal cost control. These factors we believe will result in record revenue and improved margin performance that should result in increasing shareholder returns over the next 2 years.

That completes our prepared comments for today. Thank you for your time, and we can now proceed to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) First question will come from Luke Junk of Baird.

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

I want to start with gross margin this morning. Good to see the initial cost recoveries flowing in here in the quarter. Now that you've been having a lot of those conversations and relative to what you're guiding for 2023, how good is your line of sight to that level of gross margin at 32% to 33% or said differently, how much do you already have in hand versus negotiations that are still undergoing at this point?

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

Yes. For the first quarter, we feel pretty good about where we're at on the recovery side to get to that range for the year. Like we mentioned in the prepared comments, we think the first quarter is going to look a little bit more like Q4 from an overall margin percentage perspective.

But a lot of this recovery will start to take effect throughout the year and the growth rate will obviously help with the overhead side to help leverage the business to get to that range for the full year.

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

Maybe just to follow up on that. Specifically, the negotiations themselves, Steve. Is that still ongoing? Or what's reflected in the guidance is more so leaning towards things that you've already agreed to with customers.

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

Yes. The guidance is really about 60% to 70% of what's needed to hit that range or already agreed to. We do have several customers that are still outstanding that we need to reach agreement with.

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

Okay. That's helpful data point. And then my follow-up question on FDM and then kudos to your supply chain, your engineering team for what is -- I mean, I think it's understated to say a very impressive result in 2022, but is it right to think that may still have been short of where take rates from your customers were last year? And along those lines, does this rebase your expectations for FDM unit growth going forward? And maybe if you could comment what's in the guidance as well.

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

Yes. So the take rates didn't worsen because of that. Really what happened though is they were increasing throughout the year. What I would say is FDM shipments in 2022 were probably 100,000 to 150,000 units short of what customers would have liked them to be, and that was driven almost exclusively by availability of components. And to your point, and thanks for thanks for recognizing and pointing that out, but Neil's team did an incredible job of even -- allow the work to even get to this level was herculean. So it was a pretty crazy year in terms of how much work had to go in just to try to get to this level of performance. In terms of going forward, we've been talking 200,000 to 300,000 units per year is kind of what our expected growth rate was over a longer period. I actually think '23 will be slightly above that, so probably north of the 300,000 unit range going into 2023.

Operator

Our next question will come from David Kelley of Jefferies.

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

Maybe to follow up on the gross margin discussion, and appreciate also the color on cost recoveries. But the other impacts in the quarter, raw material, labor cost increases, can you give us a sense of the impact there? And then I also wanted to ask about the order volatility in the quarter. Is that still supply chain constraint related?

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

Yes. So the order volatility is really supply issues across the entire industry that's impacting OEMs and then, therefore, we're being impacted because of how much change is happening at the OEM level. On the margin, on a year-over-year basis, if you look at Q4 of '22 versus '21. One of the things we like to point out is there's actually about 500 basis points of margin headwind. And that from cost side, we -- obviously, with cost recoveries, we're able to recover about 200 basis points. So the net is 300 on a year-over-year basis is what you see the margin down. But the total headwind was actually 500 -- a little over 500 basis points. Of that, about 350 basis points were bill materials related, so cost increases. There was about 100 basis points of labor and then another 50 to 60 basis points of various things, mix and overhead being the primary drivers of that headwind.

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

Okay. Got it. That's helpful. And outside of the pricing and pass-through dynamic, how should we think about kind of raw material labor expectations baked into that second half margin ramp that you're expecting in the guide?

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

Yes. I mean if you look at on the bill materials side for 2023, we're expecting a pretty stable environment, so basically flat on the material side. There will be some ups and downs inside of that. But the bottom line is we think we'll get through 2023 with pretty much net neutral position in terms of billing materials. Obviously, labor is going to continue to move based on market conditions. What we see, though, is that we think we've addressed most of those over the last few years in terms of labor costs.

But you would expect to see normal kind of inflationary pressure going forward on the cost of labor. So we think the increase in those issues should be less than what we've experienced in the past, and the growth rate will obviously produce a higher rate of revenue, which should help us with our overhead side to get to a slightly improved overall cost position.

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

Okay. Perfect. And then last one for me. The OpEx guide, and you mentioned the kind of key focus, ongoing focus on growth products, how should we think about R&D levels going forward? Any meaningful step change in the spend there?

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

No, it's roughly in line with our revenue growth rates. Really, the R&D forecast is tracked pretty well. I mean there's a little bit of lumpiness as it relates to when the revenue actually comes to fruition. But the increases in R&D attractive over the last 5 years have tracked roughly in line with our sales growth level.

Operator

Our next question will come from James Picariello of BNP Paribas.

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

On the customer cost recoveries, you achieved $15 million in the fourth quarter. Just curious on a finer point, I know this has been indirectly asked, but how should we be thinking about what that cost recovery number looks like for this year? Is the 100 basis points in net pricing still the right target for this year? Because, right, that would imply maybe 3 points of net positive price relative to your typical 2% APR. So that's something on the order of $55 million to $60 million in recoveries implied for this year. Is that the right range to be thinking about?

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

Yes. So I'd say you're exactly right about the goal for this year and where we think we can end is at about a net positive of 100 basis points.

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

Okay. And then the trajectory out to 2024 still encouraging from both the top line and gross margin standpoint, maybe now more still weighted in 2024. Just focusing on the cost side of the equation, can you quantify what the total addressable cost bucket is in terms of as an exit rate for

2022, what that cost bucket is in terms of how that winds down through 2024, what's addressable, what allows you to get to that 35% to 36% exit rate in '24 from a cost perspective?

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

Well, the biggest piece is obviously raw materials that have gone up by 350 basis points over the last 18 months. So that's addressable as we get into the late half of next year into '24, we would expect to start to see that improve. The thing we didn't talk about here was freight. That's also been about 150 basis point headwind over the last 18 months that is starting to show signs of improvement. And then the last piece really is between mix and leveraging our overhead, right? So I mean, you have a lot of things put in place for growth that has been stalled a little bit because of mostly supply chain constraints.

But as you see, our forecast this next year, move into roughly 15% growth and another 10% next year. So the investments in CapEx will start to be leveraged with that sales growth.

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

Yes. And I think James the other one, too, that we're pretty optimistic about is the labor cost increases have been very significant, but really even driving that more has been overtime cost because of the lack of staffing and headcount that we needed. We've made a lot of progress over the last month or so on the direct labor side. And we feel like that will help limit the amount of overtime costs. And so there could be another 50 to 100 basis points of tailwind over the next 18 months as we get the staffing in place and trained and become more efficient from an operations standpoint.

Operator

Our next question will come from Josh Nichols of B. Riley.

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

Just thinking a little bit more about cash flow given some of the investments that are going on for CapEx and whatnot for 2023. I did not, so inventory levels were actually down in 4Q. Are you at a level where you think you probably don't need to invest more in inventory? And is that going to be a source of cash flow for '23? Or is it going to hold around current levels? I'm just curious your thought process given the demand dynamic that you're seeing right now.

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

I think it'll -- we certainly did see a retrench. Our teams did a really good job of kind of selectively looking at where inventories were not needed as sales continue to grow. You should see that be at least flat. It may be a source of cash, but probably not an excessive source of cash. I mean you're talking $10 million, $15 million, $20 million. We feel comfortable with kind of the lead time environment, our supply chain. We're not going to get too aggressive on that until we see consistent stability in the market probably for another 18 months.

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

Perfect. And then last question for me. I think it's appropriate coming out of CES this month. But just thinking a little bit longer term, I mean, you look back 5, 7 years ago, the company wasn't really generating any revenue from FDM, everyone can see just what a growth driver that's been and the type of performance that you put up this year despite being a capacity-constrained environment. I'm just curious, your thoughts about some of the technology that you had on display at CES this year. And what 1 or 2 items do you think are probably the closest to commercialization and the timeline that it may be until those could start generating more material revenue?

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

Neil and I have probably a different answer, but I want to hear him go first. So...

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

Well, I'd like to say all the products are about ready to get to the market, but a little longer than others. I think a lot of the excitement is on dimmable devices is clearly the market that I would pick as I got the most excitement from CES, and that's large area devices as well as visors. I think both of those have great opportunity. And those are probably -- you're still going to be 3 years, 3-plus years out before we see those come to market. The second one, you asked for two.

The second would be in the driver and in-cabin monitoring. Positioning the mirror area as a platform for positioning cameras, mirrors, processing. I think we'll see that start gaining some more traction. There was a lot of interest over the last couple of years at CES, and I think there will be more traction in there. And I think that's within the 2- to 4-year window from being market ready.

Operator

Our next question will come from Ryan Brinkman of JPMorgan.

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

With regard to the $15 million of customer recoveries in 4Q, I'm curious if these are the first material sort of noncontractual customer recoveries that you've realized since costs seem to inflect around 3Q '21? And if maybe you have a sort of rolling tally internally of the total amount of excess costs that you've incurred, sense costs began to inflect and that the recovery is partly offset, right? And then like what percentage of those cumulative excess costs that you aim to or expect to recover over time or said differently, how many more of these recoveries for past costs do you think that investors can expect going forward?

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

Yes, I would say if you look at -- yes, we absolutely have the tally of the pain that has been endured over the last 18 months. This is one of those areas that you try to forget, but unfortunately, you can't. It's very real. But if you look at the numbers we were talking about earlier, about 350 basis points of margin degradation. I mean really, if you do that on a -- on the total revenue, you've got your number there. So you're north of anywhere around $70 million to $80 million in cost increases that we've had to endure over the last 18 months. Like we mentioned, we've got some already that we got in the Q4 area. And then we expect to have net positive increase in pricing this year of 100 basis points.

So if you look at what we were expecting, normally, you'd see in a down market or a negative APR market to now be positive pricing. We think we'll probably pick up a good $20 million to $30 million on an annual basis this year of those costs. And then we're obviously going to be looking at how do we either get further recoveries into 2024? Or do we get book of business and awards that will allow -- at least allow us to offset those and hopefully get back into a deflationary pricing market from a supply base.

And so it is a longer strategy, it's definitely one that we feel comfortable with the numbers. We understand what we need to do to get that margin profile back to 35%, 36%, and we're off to a good start.

Operator

Our next question will come from Mark Delaney of Goldman Sachs.

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

First one is on the mix of products this year. And have OEM take rate plans for higher-end products like FDM changed at all for 2023 in light of the current macroeconomic situation?

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

No. As of right now, we haven't seen a single change. In fact, still a lot of pressure from OEMs to try to get the type of components and at the take rates they want. The market is still constrained. Obviously, it's not as bad or as severe as it was mid last year. But there's definitely a strong demand right now for higher-end features and content.

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

That's helpful. And my second question was on the overall revenue guidance 2023. I believe as of last quarter, the company was anticipating 15% to 20% revenue growth for 2023, and now you're guiding for about 15%. So I'm hoping to better understand what's changed in the assumptions for revenue growth for this year?

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

Yes. The primary one was two things. Number one is the light vehicle production for '23 has come down a little bit. And we would tell you that we're a little bit pessimistic on the second half of the year of those numbers actually happening. And so we just manually adjust that S&P forecast based off what we understand and what we're seeing from a customer basis and also from a consumer standpoint. So -- just given the borrowing rates and what interest rates are looking like, we think there will be a little bit of a slowdown in terms of light vehicle production in the second half.

Operator

And our next question will come from David Whiston of Morningstar.

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

Just 2 questions for me. In the press release, you talked about an unfavorable product mix in the quarter. And I'm just curious, does that imply there were advanced feature products that lagged? And was that just all FDM and HomeLink or something else?

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

Yes. I mean it's mostly just a combination of the higher cost on some of the more advanced features. And then, yes, shortage shipping really what we were expecting kind of going into the quarter. So it really resulted in last year at this time, we had really, really strong outside mirror growth as well. This year was a little bit more flat in the fourth quarter. And you see a lot of that. I mean we didn't -- this year's -- the last couple of years have been a little odd just because of everything else that's been going on.

Normally in Q4, you do see our Tier 1 customers usually focus on inventory adjustments. So usually in December, you'll see them take a little less HomeLink outside mirrors, which are primary products that we ship through Tier 1.

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

Okay. And I think what Kevin was answering a question earlier on margin headwinds and particularly called out raw materials and freight. It sounds like then those are the two single biggest gross margin headwinds by far? Or in the past, it seems like suppliers it's always just been we need more volume and nothing else is as important.

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

No. I mean raw materials, the biggest headwind we've experienced is what I was referring to over the last 18 months. It's certainly the biggest part of our bill material. And with the electronics piece of it being a big portion of our business, that's certainly where the most opportunity for improvement over the next 2 years exists. We've done -- if you remember back during COVID, we kind of rightsized our operations in our overhead structure so that it was built for this size. And so as we grow, we should be able to leverage that as well, but it's not as big of a headwind as kind of the material side.

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

So if you had your choice of dramatic improvement in raw material costs now or, say, a much more normalized SAAR at a higher level, you'd take the raw materials?

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

Absolutely.

Operator

(Operator Instructions) Our next question will come from Ron Jewsikow of Guggenheim Partners.

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

Just first, you mentioned the guide, assumes stable cost environment. Does that include freight and overtime pay? Or are those potential sources of upside? And how is that trending, I guess, so far in January?

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

No. We think that will be stable as well, if not a slight -- on the labor and overtime side and even on the freight, we actually think that will be a slight tailwind in '23 versus '22.

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

Okay. And then -- this is maybe more of a question for Neil. How many FDM nameplates do you think you can get to exiting 2023?

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

So we think we can pick up another probably between 15 to 20 somewhere in there based on current, so much of its variable depending on the last half of the year in the fourth quarter. Sometimes they bump into the first quarter of the following year. So it just kind of depends on alignment. But I would say 15 is probably a pretty good number right now.

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

Okay. And then last question for me is you referenced earlier on the call, but late quarter orders slipping into the first quarter, it does look like foreign exterior and both domestic interior and exterior where maybe a bit weaker than we would have expected. And if so, can you quantify like the magnitude of what may have been a destock or shipping into the first quarter?

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

Overall, our total forecast was about $20 million to $25 million below our beginning of the quarter forecast. Probably somewhere 30%, 40% of it may have been destocking. It's hard to tell exactly what's going on. I mean especially with our foreign side, there's a little bit of lead time on shipments. So it's just a little bit of shortage on the outside mirror side.

Operator

And I do not see any further questions in the queue. I would now like to turn the conference back to Mr. Josh O'Berski for closing remarks.

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

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

Operator

This does conclude today's conference call. Thank you all for participating. You may now disconnect. Have a pleasant day, and enjoy your weekend.
