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PRESENTATION

Operator

Good day, ladies and gentlemen, and thank you for standing by. Welcome to the Gentex Reports Second Quarter 2017 Financial Results. (Operator Instructions) And as a reminder, this conference is being recorded.

Now it's my pleasure to turn the call to Mr. Josh O'Berski, Investor Relations Manager. Please go ahead, sir

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Josh O'Berski

Thank you. Good morning, and welcome to the Gentex Corporation's Second Quarter 2017 Earnings Release Conference Call. I'm Josh O'Berski, Gentex's Investor Relations Manager; and I'm joined by Steve Downing, Senior Vice President and Chief Financial Officer; Kevin Nash, Vice President and Chief Accounting Officer; and Neil Boehm, Vice President of Engineering.

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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 second quarter 2017 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 second quarter 2017 financial summary.

Steven R. Downing - *Gentex Corporation - CFO and SVP*

Thank you, Josh.

For the second quarter of 2017, the company reported net sales of $443.1 million, which was an increase of 5% compared to net sales of $423.8 million in the second quarter of 2016. The 5% quarter-over-quarter net sales growth was driven by a 6% quarter-over-quarter increase in auto-dimming mirror unit shipments, despite overall automotive light vehicle production in our primary regions decreasing by approximately 1% for the second quarter of 2017 when compared to the second quarter of 2016.

The gross profit margin in the second quarter of 2017 was 37.7% compared with a gross profit margin of 39.4% in the second quarter of 2016. The quarter-over-quarter net decrease in the gross profit margin was the result of annual customer price reductions that were not fully offset by purchasing cost reductions, as well as the company's inability to leverage fixed overhead costs as a result of the unfavorable product mix. The unfavorable product mix was driven by a higher percentage of base auto-dimming mirror shipments versus advanced feature mirrors when compared to the second quarter of 2016.

Operating income for the second quarter of 2017 decreased 2% to $125.9 million when compared to income from operations of $128.7 million for the second quarter of 2016 due to lower quarter-over-quarter gross profit margin percentage, which more than offset the quarter-over-quarter increase in net sales.

Other income increased to $2.1 million in the second quarter of 2017 compared to a loss of $1.1 million in the second quarter of 2016 due to an increase in investment income and realized gains on the sale of investments compared to the second quarter of 2016.

Net income for the second quarter of 2017 increased 2% to $88.5 million compared with net income of $86.5 million in the second quarter of 2016.

Earnings per diluted share in the second quarter of 2017 increased 3% to $0.31 compared with earnings per diluted share of $0.30 in the second quarter of 2016.

During the second quarter of 2017, the company repurchased 2.2 million shares of its common stock at an average price of $19.51 per share. As of June 30, 2017, the company has approximately 3.1 million shares remaining available for repurchase in the plan. The company intends to continue to repurchase additional shares of its common stock in the future, depending on macroeconomic issues, market trends and other factors that the company deems appropriate.

During the second quarter of 2017, the company paid down $25 million of debt on the company's term loan, which in combination with its normally scheduled principle repayment, was a total of $26.9 million in debt repayment during the quarter. The company expects to continue at its discretion and based on previously disclosed factors, to pay additional principal towards its debt in the future, in anticipation of such debt maturing on September 27, 2018.

I'll now hand the call over to Kevin Nash for the second quarter 2017 financial details.

Kevin C. Nash - *Gentex Corporation - CAO and VP of Accounting*

Thank you, Steve.

Automotive net sales in the second quarter of 2017 were $433.9 million, an increase of 5% compared with automotive net sales of $414.4 million in the second quarter of 2016, which was driven by a 10% increase in international auto-dimming mirror unit shipments that was partially offset by 3% lower auto-dimming mirror unit shipments in North America on a quarter-over-quarter basis.

Other net sales in the second quarter of 2017, which included dimmable aircraft windows and fire protection products, were $9.2 million, a decrease of 2% compared to other sales of $9.4 million in the second quarter of 2016.

The tax rate during the second quarter was 30.8%, which varies from the statutory rate of 35%, primarily due to the domestic manufacturing deduction as well as favorable discrete items related to newly adopted accounting guidance impacting the tax treatment of share-based compensation. Excluding future impacts of the new accounting standard, the company continues to expect its tax rate to be approximately 31.5% to 32.5% for calendar year 2017.

Now for some balance sheet items. The following balance sheet items represent a comparison versus December 31, 2016, which is also included in today's press release. Cash and cash equivalents were $580.6 million, up $34.1 million from $546.5 million, primarily due to cash flow from operations during the 6-month period that was partially offset by share repurchases, accelerated debt repayments, capital expenditures and dividend payments.

Accounts receivable was $229.3 million, up from $211.6 million, primarily due to the higher sales level as well as timing of sales within each of the periods. Inventories were $196.5 million, up from $189.3 million. Short-term investments were $184.6 million, up from $177 million and long-term investments for $49.3 million compared to $49.9 million. Accounts payable was $82.9 million, up from $80 million. And accrued liabilities were $188.2 million, up from $69.9 million, primarily due to the reclassification of $100 million of debt from long term to short term as a result of the company's plans to make accelerated debt payments over the course of the next year in addition to increases in accrued compensation.

Some cash flow highlights. Second quarter cash flow from operations was $132.3 million versus $103.3 million in the second quarter of 2016. And year-to-date, 2017 cash flow from operations was $263.6 million versus $255.1 million year-to-date 2016, both of which were driven by changes in working capital and increased net income. Capital expenditures for the second quarter were $29.1 million compared with $34.5 million for the second quarter of 2016. And year-to-date CapEx was $56.2 million compared with $54.8 million year-to-date 2016. Depreciation and amortization for the second quarter was $25.2 million compared with $23 million in the second quarter of 2016. And year-to-date, depreciation and amortization was $50.4 million compared with $45.8 million for year-to-date calendar 2016. And based on estimated completion date for the company's current and planned capital expenditure projects, the company is maintaining its capital expenditure guidance at $115 million to $130 million range for calendar year 2017. And is also maintaining its estimates for depreciation and amortization in a $95 million to $105 million range for calendar year '17.

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

Neil Boehm - *Gentex Corporation - VP of Engineering*

Thank you, Kevin. In the second quarter of 2017, there were 24 net new nameplate launches of our inside and outside electrochromic mirrors and electronic features. During the second quarter, approximately 2/3 of the net inside mirror launches were advanced features. This higher rate of advanced feature launches was stronger than the company's historical average. Over the next several years, we continue to be encouraged about the overall product strategy that we debuted at CES in 2017, especially when considering the total potential content per unit that our newest features like Full Display Mirror, Integrated Toll Module, camera monitoring systems and biometric systems can enable.

Gentex continues to work on the development and launch of our Full Display Mirror products for our initial launch customers. As previously discussed, we are currently shipping on 7 models for General Motors, and we continue to believe that we will see additional program launches for Full Display Mirror over the next several years at GM.

During the second quarter, Gentex began shipping Full Display Mirrors for our second customer. This second OEM launch is exciting because we believe it points to the global acceptance of this product and proves that new vision-based technologies, like our Full Display Mirror, have the opportunity to provide value for the OEM and the consumer on many vehicle segments, not just luxury-branded vehicles. Gentex is pleased to announced that the Subaru Levorg is available for sale currently in the Japan market with our all-new Full Display Mirror.

Additionally, we would like to update the overall status of our business development activities for Full Display Mirror. As we have previously announced, we've received program awards with 5 different OEMs for our Full Display Mirror, and we believe that in the third quarter conference call, we should be able to announce our third OEM launch into production.

As a quick update to new products that we debuted at CES in 2017, we continue to see interest from several customers on our camera monitoring system, Integrated Toll Module system, iris-based biometric solution as well as our HomeLink home automation technology. It is important to remember that the business development phase for new products typically requires at least 2 to 3 years to acquire new business awards, which is then followed by another 2- to 3-year development phase to bring those new features into production.

I will now hand the call back over to Steve for remaining 2017 guidance and closing remarks.

Steven R. Downing - *Gentex Corporation - CFO and SVP*

Thanks, Neil. Based on the July 2017 IHS light vehicle production forecast and current forecasted product mix for the third and fourth quarters of 2017, the company currently expects revenues in the second half of calendar year '17 to increase between 6% and 10% when compared with the third and fourth quarters of calendar year 2016, with the third quarter of 2017 expected to be at or around the lower end of that range and the fourth quarter of 2017 expected to be at or around the higher end of the range. Based on actual results for the first half of calendar year '17 and currently forecasted sales and product mix, the company estimates that the gross profit margin will be between 38.5% and 39% for calendar year 2017. Based on actual expenses for the first half of calendar year '17, the company estimates that operating expenses will be between $165 million and $170 million for calendar year '17.

Lastly, based on 2018 light vehicle production forecast and current forecasted product mix, the company is making no changes to its previously announced revenue estimates for calendar year '18, which continues to be estimated to be over and above the foregoing 2017 revenue estimates in the range of 6% to 10%.

We can now proceed to questions. Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question is from the line of Chris Van Horn with FBR.

Christopher Ralph Van Horn - *FBR Capital Markets & Co., Research Division - Associate*

So just on the annual -- the price reduction that you saw during the quarter. Do you think that, looking forward, that this seems like you're kind of implying a better back half margin here? Do you think these price reductions are pretty much behind us? And do you see kind of higher margin product mix in the back half that gets you there?

Steven R. Downing - *Gentex Corporation - CFO and SVP*

Yes. If you look at the pricing reductions will kind of flow through the rest of the year. Typically, they happen in the first half and then the second half on a comp basis year-over-year, it's going to be the same type of a headwind. But what we're looking at is the mix kind of returning back to what it was in prior quarters or at least closer to that. And so what we would expect is the mix to be better in the second half. And then also the PPV will probably fully roll on in the second half as well. So when you look at those factors, that's why we believe the second half margin should be better than Q2.

Christopher Ralph Van Horn - *FBR Capital Markets & Co., Research Division - Associate*

Okay. Great. And then correct me if I'm wrong, the number -- the second Full Display Mirror customer is the camera and display-based product, right? So a little bit higher price point. Could you remind us of the -- the next 3 rollouts, the timing of those? And then what technologies it is? Is it both camera display? Or can you disclose that?

Neil Boehm - *Gentex Corporation - VP of Engineering*

So you're correct, Chris, on the current product with the Subaru, it is our camera and display. Then with the next one that we're hoping to announce in Q3, that would also be the camera and display. And then the fourth customer would be a display only. And then the fifth one that's a little further out would be camera and display as well.

Steven R. Downing - *Gentex Corporation - CFO and SVP*

And in terms of timing, that fifth one is kind of a mid- to later '18.

Neil Boehm - *Gentex Corporation - VP of Engineering*

Late '18.

Steven R. Downing - *Gentex Corporation - CFO and SVP*

And the fourth should be kind of probably second quarter-ish of '18.

Neil Boehm - *Gentex Corporation - VP of Engineering*

Correct.

Christopher Ralph Van Horn - *FBR Capital Markets & Co., Research Division - Associate*

Okay. Great. And then final one for me. The new -- the product launches this quarter, it seems like 2/3 were advanced features. You've kind of gone from 2/3 to 50% a couple of times now but it seems like that you're continuing to trend higher here on a calendar basis. Do you see that kind of going forward as continuing or any visibility there?

Steven R. Downing - *Gentex Corporation - CFO and SVP*

Yes. It's hard to predict that on a per quarter basis because a lot of it comes down to vehicle timing and when those SOPs actually take place. What the trend though is, is you're absolutely right. The trend is that where, a lot of interest in technology, a lot of trends. The trend is definitely towards more advanced features than base mirror launches. To put this in perspective, historically, we've been slightly below or around the 50% kind of 50-50 of our launches were base, sometimes a little more than 50% were base mirrors in the past. And what we've seen is that's kind of the new lower-level watermark that we've been seeing the last year, 1.5 years. And really, there's a net positive trend towards more advanced features. So what we're excited about is when you have the base mirror launches, obviously like we've talked about with the market, is that it's kind of our geography and how we get into the marketplace. And then from there, it's a business development exercise to try to add content and advanced features to that product. So we're seeing growth in both areas. But of course, we love it when we see a little bit more growth on the advanced features side because that tends to help margins.

Operator

And our next question is from the line of Rich Kwas with Wells Fargo.

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

I wanted to follow up on the gross margin for the second quarter. So typically, your margins grows on a gross basis at least go up sequentially from Q1 to Q2 as the price downs hit the first quarter and then you get more productivity in the second quarter. The commentary seems to imply that the base mix was meaningfully higher, and I don't know if you can put numbers around that. But just curious on -- in the step down in gross margin, what are the numbers around base mix? And then was there any sort of contenting differences that went on relative to mid-April when you last reported? Because you did guide to a lower revenue number or growth number here for Q2, Q3. But it does seem like the mix went against you in third quarter. I know there were some pull back on North American production on a unit basis. But just curious on additional color there.

Steven R. Downing - *Gentex Corporation - CFO and SVP*

Yes. So I think if you look at kind of what we had guided in production, what product production was going to be at the beginning of the quarter and then how that ended, you're absolutely right. North America worsened pretty significantly, so down about 2.7% lower than what we had -- what we thought it was going to be going into the quarter. Europe improved slightly by about 2%. But if you look at our content play, remember that were higher penetration rates in the North American market. And with that posting the largest losses, obviously, had a negative impact to our overall ability to grow. Europe did improve but it didn't improve necessarily in the right segmentation. So one of the things we like to talk about is if you look at across segment -- this is consistent really in both North America and Europe. C, D and E segment vehicles performed very poorly in the quarter. Really, the growth or improvement at least in those areas came from B-segment primarily. And we don't have a lot of penetration or content on those vehicles. If we do, it's primarily base mirrors. And that's why when we talk about the headwind in the segmentation is just that, not only did it not move in our favor from an overall kind of segment level but then the trend was towards base mirror mix inside of the quarter as well. So that's really what helped us. If you look at it though, we talked about the -- our primary markets being down 1% in the quarter and a growth rate of 5%, it's really a 6% outperformance to market, which is kind of that range we've talked about. Obviously, we love it when it's a hair higher. But we've kind of talked in that 6% to 10% kind of outperformance to market conditions and that's what this quarter was.

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

Okay. Was there -- and Steve, was there anything explicit here apart from the mix? You did talk about not leveraging fixed cost, but was there anything around customers coming in and pressing harder on price or anything along those lines that you wouldn't have anticipated going back a few months ago?

Steven R. Downing - *Gentex Corporation - CFO and SVP*

No. It wasn't any macroeconomic issues or anything related to like kind of an OEM-driven influence on the business. I'd say the single biggest negative impact is really the PPV levels. So the contribution from our supply community has not been what we had expected or what we had hoped for, for this year. So that gap between what we're giving to our customers versus what we're getting from the supply community is really what the -- that second factor that caused this big impact on the negative impact on gross margins.

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

And is that -- that's assumed to get better at least from here in the second half in terms of getting the gross margin sequentially higher?

Steven R. Downing - *Gentex Corporation - CFO and SVP*

Yes. We think there will be some improvement in that area, and then we think mix will revert back to more historical levels not what we saw in Q2. In other words, if you look at the -- if you'd line up the last couple of years, for instance, Q2 was below average in terms of mix performance. And so we're not forecasting that to continue into the second half. And we would expect there to be some pickup in the second half of the year from the supply community.

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

And then that assumes all the transition with some of your key customers particularly on the truck side as you move in the second half, some benefits on that front? That launches (inaudible)

Steven R. Downing - *Gentex Corporation - CFO and SVP*

Yes. That's correct. Yes.

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

Okay. And then last one for me. So you bought some stock back in the quarter. At least recent history, stock weakening here today, again towards levels where you've been more aggressive. What's the updated view on returning capital to shareholders?

Steven R. Downing - *Gentex Corporation - CFO and SVP*

Yes. I think -- the view itself is pretty consistent. But like you mentioned, when we see performance like today in the market, you'll tend to see us get more aggressive on that repurchase philosophy. We think the market reaction is a hair overreacted to what this performance is. And our guidance for the second half of the year, the midpoint of that guidance being around 8% for the second half of the year, which would imply back into that 8% or so outperformance to market, 7%, 8% outperformance to market condition. So if you look at the underlying philosophy of the company, nothing's really changed today. Obviously, the quarter wasn't the best quarter. But when we see market conditions react negatively on what we believe to be a very short-term view, you'll tend to see us get more aggressive on share repurchases.

Operator

And our next question is from the line of Brett Hoselton with KeyBanc.

Brett David Hoselton - *KeyBanc Capital Markets Inc., Research Division - MD and Equity Research Analyst*

I wanted to talk a little bit about the Full Display Mirror and I was actually hoping to take a step back. And can you talk a little bit about the competitive landscape, what you're seeing in the Full Display Mirror area? And in particularly, in what ways would you consider your Full Display Mirror to be proprietary?

Neil Boehm - *Gentex Corporation - VP of Engineering*

Sure. So I think -- we talked previously about competitive systems that people have shown and demonstrated that have been marketed or advertised. I think when you look at the product and the technology that we've demonstrated and have shown to customers and that are shipping in the market, there's -- several areas of the technology that are proprietary in how we do that technology. The fact that we're vertically and integrated and do a lot of our own coating processes for that helps improve things such as the image quality and the brightness of the technology, which then helps overcome certain dynamic situations that you get into a vehicle today where you get some light conditions that can create display washout. That's a huge advantage for us based on how we do the technology, not just electronics but in backlighting, but also in with our coatings that we utilize to make that successful. When you look at some of the competitive side, what typically happens is you have people bringing pieces and parts together and trying to make a competing product. And what we're constantly doing, and I think we've talked about this in general before is, before the first product ever got to market, we were innovating and designing the second product in tooling, and then the third product was in the concept before the first product ever got to market. So we're continually changing where that technology goes to have a competitive edge and to be able to drive some intellectual property around those features and the ways of executing the technology.

Operator

And our next question comes from the line of Ryan Brinkman with JPMorgan.

Samik Chatterjee - *JP Morgan Chase & Co, Research Division - Analyst*

This is Samik here on behalf of Ryan Brinkman. The first question I had, I did want to get an update, if possible, on SmartBeam revenues this quarter relative to last year. I know you've said previously that your revenues for SmartBeam are expected to be like flat or declined slightly. But if you could give us a sense of the award wins as well which would sort of help us get a sense of what the growth might look like in the outyears as well

Steven R. Downing - *Gentex Corporation - CFO and SVP*

Yes. Really, if you look at SmartBeam in Q2, it performed fairly in line with prior quarter. It was a little bit better than year-over-year comps. And if you look at the trend, really, what we are guiding to is that was kind of a longer-term trend say over the course of the next year, so that kind of flat to slightly down. So in Q2, it really wasn't that big of a net impact on sales for the quarter. It was really pretty consistent with prior years. So what I would look at and say as it relates to the SmartBeam is -- that's -- it's kind of a longer-term trajectory as it relates to the headwinds associated with that product. And the reason why we brought that up is it's not going to be the growth driver that it has been leading up to the -- really, throughout the creation of the product. And if you head out over the next couple of years, we'd expect that flat to slightly down kind of trend on the SmartBeam product over the next year or so.

Samik Chatterjee - *JP Morgan Chase & Co, Research Division - Analyst*

Great. So just to follow up on that in terms of the drivers for revenue growth or outperformance related to which advanced features will really be driving that. Now that SmartBeam is sort of decelerating, which are the advanced features that you expect to drive the outperformance for you?

Steven R. Downing - *Gentex Corporation - CFO and SVP*

Yes. Sure. If you look at -- you start kind of at that top part, you look at HomeLink Full Display Mirror, and really, a lot of our other advanced features, and these are -- we talked about them not necessarily by name but by the fact that they're customized solutions for an OEM. So whether that's our camera system that's part of our Full Display Mirror or the FDM itself also, and if you'd go out beyond. And then when we talk about that we're talking about really that in terms of the next year or so. When you start looking out beyond that, call it the next 3 years, the features that we believe will continue to drive that are really Full Display Mirror, HomeLink, the home automation version of HomeLink, some of the other features that we debuted at CES, so including camera monitoring system, Integrated Toll Module system and those advanced features. And those are the things we're really looking at to continue to be growth drivers of the business in that outyear.

Samik Chatterjee - *JP Morgan Chase & Co, Research Division - Analyst*

Got it. Got it. And a minor clarification point. I know your penetration in North America is much higher than other geographies. But is there a difference in terms of the penetration of your advanced features as well between the geographies that you notice as you're sort of launching on a lot of these products with advanced features? Is there a difference between their penetration rate and adoption as well?

Steven R. Downing - *Gentex Corporation - CFO and SVP*

Yes. I mean, it's pretty similar honestly to the penetration rate. So the penetration rate and the features are really pretty similar to that of the mirrors. And that North America has historically been the leader not only in the penetration rate but also in the content level of vehicles. It is one of the higher-priced markets in the world. And so when you see North America perform poorly, it hurts not only on the volume perspective but also on the advanced features side. Now what we will talk -- what we would say is that a lot of the announcements you've seen from us in the last 2 years are advanced feature wins and content wins in the Asian market. That's a new development for the company. Really, if you back up 5 years ago, most of our wins in Asia, for instance, were predominantly base mirror wins. And so now we're starting to see like in Neil's announcement about the Full Display Mirror in for sale in the Japan market, and the reason why we're excited about that is historically, that's been a tougher market for us from content standpoint. And some of our newer technology is we believe offer better growth opportunities than just base mirrors alone.

Operator

And our next question is from the line of David Whiston with Morningstar.

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

I just -- sticking on the mix issue for a minute. I guess, I'm confused why are you optimistic that this is going to improve on the North American market? It's almost certainly done growing for year-over-year and probably for the cycle. I mean, is it -- are your customers telling you there will be more advanced products for sure in the second half?

Steven R. Downing - *Gentex Corporation - CFO and SVP*

Well, because you have 2 distinct factors happening there. One is overall production levels, and that -- even if that pulls back or stays fairly flat, what we saw in Q2 was anomaly in terms of the content play. There was nothing that happened. There was no decision that was made by an OEM that affected that. It was really just timing of sales and how, what those orders were and how they flow through. And so even if the market pulls back slightly, what we're optimistic about is that our content should return to its historical level because we have releases and we have view into what that should look like from OEM customers throughout the second half of the year. If you back -- if you take Q2 out of it or even if you averaged the last 12 months, for instance, what you're going to see is that Q2 was a bit of an anomaly as it related to the weakness and mix. There is no reason to believe that Q2 would be the further -- the go-forward trajectory. Really, what you look at is the last 12 months and look at orders from customers, and you look at those releases, and you can start to see what the back half should look like. And so that's why we feel somewhat optimistic about the second half improving from a mix standpoint.

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

Okay. And were there any advanced features in particular that were really weak? Or was it most of your product line across the board, in the advanced part?

Steven R. Downing - *Gentex Corporation - CFO and SVP*

Well. Yes, I mean, it was pretty spread evenly across the board. I think the big thing is one of them on the mix side that we talked about is some of the places that we're doing well, for instance, in the European market. Some of our French customers did quite well on the quarter and that historically has been base auto-dimming products. And so you see some uptick in those customers and their kind of quantity of parts. But then also the percentage of the total units that were shipped that are going to those customers increased. And so that's what a lot of what drove kind of that mix weakness. It wasn't just that it was all downside. You have to look at it on the upside as well and see that where does the growth come from and who were the drivers contributing to that growth. And unfortunately, it happened to be a lot of base auto-dimming customers.

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

Okay. And can share anything about conversations you're having with your customers for the next -- over the next maybe 1 to 2 years? Are they more -- are they getting more cautious, a little more pessimistic about where we are in the cycle? Or is it still about the same as it was last quarter?

Steven R. Downing - *Gentex Corporation - CFO and SVP*

No. I'd say it's pretty same, it's pretty much the same as it was the last quarter, I'd say that. Though this year has been a different feeling than say, the last 2 years at a customer level. And I say that about production levels and how customers are responding to and what levels of purchases there would be. I would -- nothing's changed really from the desire for new technology and what the car -- what OEMs are requiring or looking for in technology in the vehicle environment. That hasn't changed. The change is mainly around how do they match up inventory levels with production levels to make sure that everyone is rightsized for the next couple of years in terms of what probably the natural progression will be in production.

Operator

And our next question is from the line of John Murphy with Bank of America.

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

I just wanted to follow up on one thing you said. It sounded like that North American production came in, I think you said 2.7% lower than you thought at the beginning of the quarter. Was that correct? It was kind of a shaving of -- for schedules for the quarter?

Steven R. Downing - *Gentex Corporation - CFO and SVP*

That's correct.

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

So why do you have comfort in the forward 2 quarters? And what's out there? Because I mean, obviously, the market is deteriorating. There is some misestimation by the automakers on their schedules at the beginning in the second quarter. Why do you think they're more accurate on finding mix in the second half of the year?

Steven R. Downing - *Gentex Corporation - CFO and SVP*

Well, 2 things. One of them is the function of the launches that Neil discussed in the quarter. In other words, the new products that are going into production right now. Secondly, is the release information that we're seeing. So these are actual orders from customers. And there's some variability in those obviously. But when we're looking at that, typically, you're seeing anywhere from 4 to 12 weeks of order information. And when we look at that data and what our customers are planning, and you look at their shutdown times, we look at that and we obviously make some assessments and judgments based off those -- off that data. But all in all, it looks to be net positive. Now the important part there, John, is we did talk about is Q3 will probably be at the lower end of the range but Q4 we expect to be at the higher end of the range. And so part of that is based on year-over-year comps but then also that customer order information.

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

And did it just appear that their schedules are just a little bit conservative in maybe a lighter demand environment and they're just being more realistic right now than they may had been at the beginning of the second quarter?

Steven R. Downing - *Gentex Corporation - CFO and SVP*

Yes. I think so. And then part of it is also -- is IHS making that assessment for them. So you really have about 2 different data flows there. You have kind of IHS's assessment of what the OEMs are saying and then you also have direct orders from the OEMs. And we take those 2 in aggregate and kind of look at them and then try to find what is -- where does truth really reside and what is the second half realistically going to be based off those 2 distinct data courses.

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

Okay. Yes. That's incredibly helpful. And then if we -- and then just to also -- I just wanted to clarify one thing. I mean, I thought that on the base mirrors, you guys were doing better gross margins. Then as we saw features roll in, the -- just some of the pass-through content or incremental content you're buying from suppliers might create a little bit of pressure on margins. So it sounds like in the quarter that was more base mirrors sold. So wouldn't that have been margin accretive? Or is it just the other factors that offset that benefit?

Steven R. Downing - *Gentex Corporation - CFO and SVP*

No. It's actually quite the opposite. If you look at our -- historically, our base auto-dimming mirrors on the inside mirrors for instance typically, those are in the low $20 kind of price point range, and they're typically in that low to mid-$20s kind of gross margin profile. And so that is one of the reasons why we like to be a little more full disclosure about that is just to help with that conversation around they excel. When base auto-dimming outperforms, you'll tend to see a headwind on margins while when advanced features perform well, you'll tend to see a tailwind. Obviously, that varies by what advanced features are doing well. But that's kind of the rough thumbnail of margin profile.

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

That's very different than what we heard from people, historically. Maybe just on the camera and display. Why are some automakers choosing to use you guys for camera and Full Display Mirrors? And some just using Full Display Mirrors? Just curious what the decision process is there? And how much better a camera and display is for you guys than just the display?

Steven R. Downing - *Gentex Corporation - CFO and SVP*

Sure. So back to your previous comment, just want to clarify the last I'd say, 3.5 years we've been trying to be very clear about our margin profile. So we've mentioned before at conferences and other public events we do tend to walk through some of the higher level kind of features, adders, margin profiles of those. If you're lacking that information, obviously, we can talk about how we fill in some of those gaps. But that's been pretty consistent from this team for the last few years talking about revenues and margin profile. So I apologize if that was confusing.

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

Yes. We could follow up on that. Yes.

Steven R. Downing - *Gentex Corporation - CFO and SVP*

Yes. Sorry, your second question was around?

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

Just the (inaudible)

Steven R. Downing - *Gentex Corporation - CFO and SVP*

Okay. Why are they choosing cameras. Yes.

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

Yes. Why are some choosing both, and why (inaudible) just one. It just seems intriguing.

Steven R. Downing - *Gentex Corporation - CFO and SVP*

Sure. So our launch customer friends in GM was focused on getting to market quickly. And the quickest way for them to get to market was to take what they had already sourced off-the-shelf camera and then have us work with that supplier to get this product into their vehicles as quickly as possible. And that's what we did. When we have more time to design the system, what we've been able to prove is that taking 1 supplier who can control the input being the camera side and the output being the display side, we can engineer that solution to be more seamless. You can control the size of the camera better, the location of the camera, we can do processing into the mirror if it should be there versus on the camera itself. There's a lot more flexibility. We can design the whole system around an individual vehicle. And when you look at the content play, the other thing that's interesting is we are able to help them come up with new locations of cameras. And when you look at this camera that we're selling, it's going into places in a vehicle where there's never been a camera located before. So Gentex brought for instance new market opportunities looking at locations in a sharpened antenna, high mounted in the rear window of a vehicle, higher up mounted than your backup cameras today. And one thing that we like to point out here is this not replacing a backup camera. In today's market, every FDM execution is an incremental rearward-facing camera because of the field of view and where that camera is looking.

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

Okay. That's incredible. Just real quick, would you guys ever consider taking on more debt to buy back stock? I mean, you're on your path to having almost no debt in short order. Given where the stock is and where rates are and your cash flow is, I mean, would you ever consider taking on a little bit of debt to buy back stock more aggressively?

Steven R. Downing - *Gentex Corporation - CFO and SVP*

Historically, the company's philosophy has been that we use cash and cash generated off the business to handle share repurchases. That being said, we would never say no across the board to any kind of a request or comment like that. But right now, we don't see the need to given our strength in our balance sheet. So our focus right now is to continue to execute the strategy and to use our strong balance sheet to help fund the share repurchases. And really to help use the income statement still -- we still produce tremendous amount of earnings off of our current business, and we want to use that to help secure the future from a product strategy standpoint. But then also to help offset dilution and then more importantly, to acquire stock when it's appropriate.

Operator

(Operator Instructions) And our next question is from the line of Gene Fattore with Muller Road Capital.

Gene Fattore

A couple of questions to follow up. On the aviation window side, again, I'd like -- I have a few questions. I'd like you to comment on the new JV that PPG announced. And if that would potentially replace your JV offerings? Or if that new participant is going to be additive to what you're already doing with them? That's number one. Number two, on the HomeLink side, does that goes to a smart home platform? Do you have licensing that range -- that will let that work with other embedded systems, specifically the Android format or the Google home -- excuse me, the Amazon offerings that they're rolling out so they can work seamlessly? Or would you possibly be at risk of losing those 2 smartphone-deployed method if you don't have those? And then on the camera and specifically, the first one on the CT6. My news say, is GM already has a high mounted camera for this. And so if they felt, not trying to be difficult but trying to get some clarity with the question, if they felt that your solution was an enhanced final delivery over that which they were getting by going with the third party and just using you for the FMD -- FDM, why do you believe that that's going to change since your first one went the wrong way and didn't incorporate both products from you?

Kevin C. Nash - *Gentex Corporation - CAO and VP of Accounting*

Sure. So Jim, we'll start and -- first, nice to speak with you. We'll kind of go through this in reverse order, if that's okay, just because I got the CT6 fresh in my mind now. So one of the things we talked about over the last, I think 18 months, we talked about GM strategy. We have not predicted that we would become a camera supplier for the GM execution. We feel very comfortable that we'll be the display partner and focus on new innovations around that display mirror that we're going to be partnering with GM's preferred partner on the camera supply side. Really, what we're talking about is 3 of those next 4 launched OEMs are going to be -- where we're going to be a systems provider. One of those 4 next will also be the same situation as GM, where we'll be the mirror supplier partnering with their chosen camera supplier. And so it's not -- we're not trying to imply that we're going to be the systems integrator on 100% of the vehicles or awards that we get. So we're not trying to think that somehow GM's going to change to a Gentex-supplied camera as part of our business development efforts. On -- I'll hit the aerospace, and I think I'll let Neil hit HomeLink. That aerospace side, yes, so we're familiar with PPG's. They had talked about one of the things they were looking for, some different technology. They found that in a partner they were looking for. We have 0 reason to believe this will impact any of our current book of business. We have great relationships with Boeing. We feel like they're very committed to that product on the 787. That is our only program right now that we have that shipping with PPG. So it's that entire book of business is really around Boeing today. We continue to be optimistic though about our marketing of that product directly ourselves to the OEMs, and we believe there's a lot of interest in the space for our windows on additional Boeing or Airbus or any manufacturer we continue to look for opportunities to find wins. The issue with the aerospace industry, as you're familiar, is a very long lead time business development standpoint. So you had to wait for programs that naturally want to fit, and then obviously, make a compelling offering about the product and also about the business case of our product.

Neil Boehm - *Gentex Corporation - VP of Engineering*

Yes. And regard to the HomeLink and home automation questions. One of the things that we've been working on at CES 2017, when we displayed and talked about that next phase of HomeLink. And tying it into -- tying those fixed buttons in a vehicle and that direct transmit of that device to a Bluetooth low-energy connection to a phone and then be able to trigger off smarthome-type devices, like a smart link or any of those smart things or any of those other types of hub technologies. Based on CES and the interest level that we received, we are actively in discussions about establishing those relationships and how to make that product to the next step. And I believe in the next 6 months here or so, we'll be having further discussions and laying out some of those technology paths more openly. But we are active in that area. It's important obviously to have the relationships. Like with HomeLink, what we've learned is having those technical relationships on the compatibility side is what's key to the product. And we're taking that same philosophy into the home automation.

Gene Fattore

Now would you have to get a licensing arrangement with say, a Google or an Amazon? Or would you just be offering an app development solutions (inaudible) right for that?

Neil Boehm - *Gentex Corporation - VP of Engineering*

It depends on all -- on the different automation groups that you're working with. So at this point, we really can't get into that from a discussion point. But we'd gladly discuss that in the next 6 months when we start rolling out what that looks like.

Steven R. Downing - *Gentex Corporation - CFO and SVP*

Except for generic, I'd like to say that some home automation suppliers are open-source, where it doesn't require any agreement. Others obviously had some proprietary side that you have to work with them on gaining access for that.

Neil Boehm - *Gentex Corporation - VP of Engineering*

Where you become part of the development cycle.

Steven R. Downing - *Gentex Corporation - CFO and SVP*

Yes. That's correct.

Gene Fattore

Okay. And I'm sorry, just one last one, if I may. How should we be thinking about the cadence of some of the traditional advanced features that have been on your mirrors moving to the dash, say, the compass feature, the temperature feature, other things, as more and more stuff is on a universal canvas as the cars get more digitized and the information is residing in there anyway. How should we think about what you see as the cadence of that happening more or less to what happened this quarter, we had more base shipments than you anticipated?

Steven R. Downing - *Gentex Corporation - CFO and SVP*

Yes. I think if you -- the better indicator though of what we believe the future looks like is our launch activity, which is net positive on the feature side. And it's not say there won't be some losses and some content over time. But right now if you look at compass, for instance, that business has hold up remarkably well. In fact, they've been growing really for the last few years. And that's really predicated not on the availability of the network or could you do it somewhere else. A lot of times in vehicles, compass information is what resides in 2 or 3 different locations. It's really about the consumer and does the consumer demand that information in a place where it's comfortable, easy to access and makes sense to them. And so we look at compass as an example. We continue to see that for a long time, we've been planning around pressure that could come from navigation systems or other systems. But customers continue to like that feature in that location so we continue to work on the growth prospects there. That's not to imply that it's going to last for forever, but right now we see a net positive in terms of demand for our location, geography and the technologies that we're bringing. Really, when you talk about the feature losses that we've experienced as the things we've talked about over the last couple of years. We've had some microphone reductions that continue to roll through currently. You see some changes and other features whether it's outside mirror, decontenting by OEMs when they're trying to achieve cost targets. But we tend to be pretty public about those losses so that we can discuss them with you and help you understand what they are, why they're happening and what their impact will be to the business.

Operator

And with that, we end the Q&A session. I will turn the call back to Mr. Josh O'Berski for his final remarks.

Josh O'Berski

Thank you, everyone, for your time today. If you have any follow-up questions, feel free to reach out. Have a great rest of your weekend.

Operator

And ladies and gentlemen, thank you for participating in today's conference. This concludes the program, and you may all disconnect. Have a wonderful weekend.

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