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GNTX.OQ - Q3 2024 Gentex Corp Earnings Call

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**OVERVIEW:**

Company Summary





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**Kevin Nash** *Gentex Corp - Chief Financial Officer, Vice President - Finance, Treasurer*

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**James Picariello** *BNP Paribas Exane - Analyst*

**Ryan Brinkman** *JPMorgan - Analyst*

**Ronald Jewsikow** *Guggenheim Securities LLC - Analyst*

**Josh Nichols** *B. Riley - Analyst*

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## PRESENTATION

**Editor**

Please standby for streaming text.

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**Operator**

Good day and thank you for standing by. Welcome to the Gentex Corporation Third Quarter 2024 financial results conference call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session.

To ask a question. During this session, you will need to press star one on your telephone. You would then have an automated message revising your hand this race. To withdraw your question, please press star one again . Please be advised that today's conference is being recorded. I would now like to hand the conference over to your speaker today, Josh O'Berski, Director, Investor Relations. Please go ahead.

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**Josh O'Berski** - *Gentex Corp - Marketing and Investor Relations*

Thank you. Good morning, and welcome to the Gentex Corporation Third Quarter 2024 earnings release conference call are Josh O'Berski, Gentex Director of Investor Relations, and I'm joined by Steven Downing, President and CEO, Neil Boehm, CTO and Kevin Nash, Vice President of Finance and CFO. All contents of this conference call are the property of Gentex Corporation and may not be copied, published, reproduced, rebroadcast, retransmitted, transcribed or otherwise redistributed. Gentex Corporation will hold responsible and liable any party for any damages incurred by Gentex Corporation. With respect to any unauthorized use of the contents of this conference call. This conference call contains forward-looking information within the meaning of the Gentex Safe Harbor statement included in the Gentex Reports Third Quarter 2024 financial results press release from earlier this morning and as always, shown on the Gentex website. your Participation in this conference call implies consent to these terms. I'll now hand the call over to Steve Downing for our prepared remarks. Steve?

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**Steven Downing** - *Gentex Corp - President, Chief Executive Officer*

Thanks, Josh. For the third quarter of 2024 for the Company reported net sales of $608.5 million compared to net sales of $575.8 million in the third quarter of last year. For the third quarter of 2024. For global light vehicle production declined by 5% versus last year as light vehicle production weaken across all major regions, but especially in our primary markets. When compared to the third quarter of last year, light vehicle production declined by 6% and our primary markets of North America, Europe, Japan and Korea. This decline was significantly worse than the 3% quarter over quarter decline forecasted at the beginning of the quarter. The light vehicle production declines resulted in a sales shortfall of approximately 25 to 30 million for the quarter. But despite that weakness in our end markets, we are able to outperform our primary markets by 12% for the third quarter of 2024 for the gross margin was 33.5% compared to a gross margin of 33.2% for the third quarter of last year. The gross margin improved as a result of the higher revenue levels and purchasing cost reductions, which were partially offset by unfavorable product mix related to OEM mix, geographical mix and I see versus how we see mix sequentially, the gross margin improved by 60 basis points as a result of the higher sales levels, the second quarter and lower pricing reserves and the third quarter versus the first half of this year. Overall, we are pleased with the sequential improvement in gross margin, but the third quarter was still behind our margin forecast due to lower than expected sales driven by light vehicle production shortfalls, product mix issues and overhead inefficiencies. We remain committed to our gross margin recovery plan that we laid out over the last 18 years. Months for given the shifts in the market and light vehicle production mix, we expect that the company's margin recovery target won't be fully achieved until 2025. Operating expenses during the third quarter of 2024 increased by 13% to $78.3 million compared to operating expenses of $69 million in the third quarter of last year. Operating expenses increased quarter over quarter, primarily due to staffing and engineering related professional fees that are in line with our budget for the year and are primarily dedicated to R&D and launches of new programs and products. We expect that operating expenses will continue at the current pace for the rest of this year. Despite the lower than forecasted light vehicle production and sales levels we have experienced over the last two quarters due to the unexpected reduction in light vehicle production this year, our R & D spend has outpaced sales growth on a percentage basis, which has negatively impacted on operating margin . But as we head into 2025, our operating expense growth should moderate and move back to a normalized growth rate that has more directly correlated to say sales growth. The growth in operating expenses being driven by several new launches that are currently in development and expected to launch over the next two years and will provide growth opportunities for the Company over the next several years. As well as research projects in support of new technologies that we have showcased at CES the last few years income from operations in the third quarter of 2024 is $125.7 million compared to income of f $122.5 million in the third quarter of last year. other income was $19.7million during the third quarter 2024 compared to other income of $2.1 million in the third quarter of last year. The change was primarily driven by non-cash gains of $14.5 million resulting from mark-to-market adjustments and other of market adjustments of certain holdings within the Company's tech investment portfolio as well as interest income from the Company's investment portfolio. During the third quarter of 2024 for the Company had an effective tax rate of 15.7%, which is primarily driven by the benefit of the foreign-derived intangible income deduction. Net income for the third quarter of 2024 was $122.5 million a 17% increase compared to net income of $104.7 million for the third quarter of last year. The increase in net income for the third quarter was driven by the increased net sales, income from operations and other income compared to the third quarter of last year. Earnings per diluted share for the third quarter of 2024 were $0.53, an 18% increase compared to earnings per diluted share of $0.45 for the third quarter of last year. Earnings per diluted share for the third quarter of 2024 were positively impacted by the increased net sales and operating income, as well as the increases in other income for the quarter. Thank you, and I'll now hand the call over to Kevin for some further financial results.

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**Kevin Nash** - *Gentex Corp - Chief Financial Officer, Vice President - Finance, Treasurer*

Thanks, Steve. Automotive net sales in the third quarter of 2024 were $596.5 million compared to $564.5 million in the third quarter of 2023. Auto-dimming mirror unit shipments decreased by 3% during the third quarter of 2024 compared to the third quarter of 2023. Other net sales in the third quarter of 2024, which includes dimmable aircraft windows and fire protection products were $12 million compared to other net sales of $11.3 million in the third quarter of 23. Fire Protection sales increased by $1.8 million for the third quarter of 24 compared to the third quarter of last year, and dimmable aircraft window sales decreased by $1.9 million for the third quarter of 24 compared to the third quarter of 23. Additionally, in the third quarter of 24, the Company recorded its first official sales of medical devices of $0.8 million from shipments of the previously acquired recycled product line and business share repurchases. During the third quarter of 24, the Company repurchased 3.2 million shares of its common stock at an average price of $30.16 per share as of September 30th of 24, the Company has approximately 10.1 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 for share repurchases will vary from time to time, and we'll take into account macroeconomic issues, market trends and other factors. The Company deems appropriate. Looking at the balance sheet, the balance sheet comparisons mentioned today or as of September 30th, 24 and compared to December 31st, 2023, cash and cash equivalents were $179.6 million compared to $226.4 million. Short and long-term investments combined were 346.1 million, up from 299.1 million, which includes fixed income investments as well as the Company's equity and cost method investments. Accounts receivable was $356.3 million, up from 321.8 million due to the timing of sales during the third quarter. Inventories were 449.3 million, up from $402.5 million and accounts payable decreased to one 82.6 million from 184.4 million. Looking at the preliminary cash flow items for the quarter. Third Quarter 2024 for cash flow from operations was 84.7 million compared to 125.9 million in Q3 of last year and year to date, cash flow from operations was $343.8 million compared to 367.7 million for calendar year 23. Capital expenditures for the third quarter were $39.3 million compared to 31.1 million for the third quarter of last year and year to date, capital expenditures were $103 million compared to 121.4 million for calendar year 23. And depreciation and amortization for the third quarter was 22.9 million compared with 22.2 million for the third quarter of 23 and due to the depreciation and amortization 70.9 million compared to the 71 million for year to date 23. I'll now hand the call over to Neil for a product update.

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**Neil Boehm** - *Gentex Corp - Chief Technology Officer, Vice President - Engineering*

Thank you, Kevin. The third quarter of 2024 was again a busy launch quarter. In the quarter, we had 25 net new name plate launches of our interior and exterior auto-dimming mirrors and electronic features for first three quarters of 24 have been extremely busy as we launch more projects than ever before. We're excited about the continued growth we see with our technologies and appreciate all the hard work and dedication that the team at Genentech is putting in to ensure we execute flawlessly. The Full Display Mirror product had another great quarter with nine additional nameplates launching in the quarter. We're now shipping Full Display Mirror on over 124 name plates globally, and it continues to have great momentum on the full range of platforms from luxury to volume brands. Even with all the changes we have a corporate Action we are still on track in 2024 to achieve our goal of an incremental 500,000 units of Full Display Mirror over the 2023-unit shipments also lower, launching a lot of products and technologies. We are continuing to evaluate opportunities to reduce the bill of material of existing programs as well as execute from the VIVE. launches we currently have in process. This focus and effort will increase significantly as we move through the last part of 2024 and into early 2025. As we know that these improvements in our bill of materials and increases in efficiencies across the organization are key to our ability to achieve our gross margin objectives as a company. I'll now hand the call back over to Steve for guidance and closing remarks.

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**Steven Downing** - *Gentex Corp - President, Chief Executive Officer*

Thanks, Neil. The Company's current forecast for light vehicle production for the fourth quarter of 2024 and full years, 2024 and 2025 are based on the mid-October 2024 for S&P Global mobility forecast for light vehicle production in North America, Europe, Japan, Korea and China. Light vehicle production in these markets is expected to decrease by approximately 4% for the fourth quarter of 2024 versus the same quarter last year. While light vehicle production in our primary markets of North America, Europe, Japan and Korea is expected to be down 6% in the fourth quarter of 2024 compared to last year. For calendar year 2020 for light vehicle production in North America, Europe, Japan, Korea and China is now forecasted to decline approximately 2% compared to the light vehicle production last year. Light vehicle production for calendar year 2025 is forecasted to increase by 1% compared to calendar year 2024 for Q4 2024 and calendar years 2024 In 2025. Forecasted vehicle production volumes from S&P Global mobility are included in our press release from this morning. Based on this light vehicle production forecast and actual results for the first nine months of 2024, we are making certain changes to our previously provided guidance for calendar year 2024 as follows. Revenue for the year is now expected to be between $2.35 and $2.4 billion, gross margins for the year and now expected to be between 33.5% and 34%. Operating expenses are still expected to be between $295 and $305 million. Our estimated annual tax rate is now forecasted to be between 15% and 15.5%. Capital expenditures are now expected to be between $150 and $175 million. Depreciation and amortization is now forecasted to be between $90 and $95 million . The Company continues to be on pace for record revenue and 24 and 25, despite significant changes in the light vehicle production environment, vehicle mix and regional mix that have impacted that production landscape. Finally, the actual and forecasted light vehicle production deterioration has impacted our total revenue estimates for 2024 and 2025, but our 12% outperformance versus the underlying vehicle production numbers in our primary markets during the third quarter gives us renewed confidence in our ability to continue to outperform the market. While the teams have done a phenomenal job creating and executing our margin recovery plan, industry conditions have created a slower growth environment that we intend to address with increased cost, focused expense control and lower capital expenditures that more closely align with our updated revenue expectations as we have in vacated the time line to achieve our targeted gross margin of 35% to 36% will likely push into the 2025 calendar year, but we remain confident in our ability to accomplish our stated goal despite the industry headwinds. That completes our prepared comments for today, and we can now proceed to questions.

## QUESTIONS AND ANSWERS

**Operator**

Thank you, as a reminder, to ask a question, please press star one on your telephone and wait for your name to be announced. To withdraw your question, please press star one on again. Please stand by while we compile the Q&A roster.

Our first question comes from the line of Luke Junk with Baird. Your line is now open.

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**Luke Junk** - *Baird - Analyst*

Great. Thanks for taking the questions and good morning, everyone.

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**Steven Downing** - *Gentex Corp - President, Chief Executive Officer*

Good morning

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**Luke Junk** - *Baird - Analyst*

To start was hoping you could just walk us through the key growth drivers this quarter on, you know, it's just a few points of growth in underlying your shipments in terms of outgrowth. Seems like FDM was a big contributor to maybe if you could expand on FDM puts and takes. And also just a factor supporting your unchanged full year expectation in what's obviously a pretty dynamic market and Jan FDM, anything else that you'd call out that an outsized impact this quarter? thank you.

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**Neil Boehm** - *Gentex Corp - Chief Technology Officer, Vice President - Engineering*

Yes, if you look at Thanks, Luca. If you look at the actual quarter, likely reference in the table on IC and OC volumes were actually down on a year-over-year basis by FDM, help pick up the rest of that difference on. There's also some other advanced features that did well in the quarter. But if you actually look at the bulk of that growth came from FDM growth, I think you also might have mentioned the question about like OEM side. And so I mean, obviously, there were some there were some ups and downs in the quarter based on different OEMs and how they performed at GM was quite strong, especially on the SEM side for us in the quarter. There's a couple of others that obviously struggled non-oil with overall production volumes, but also some feature and content that caused some headwinds in the quarter.

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**Luke Junk** - *Baird - Analyst*

Understood. And then for my follow-up, Steve, a just a bigger picture question and OpEx seen and been would become increasingly challenging backdrop is, you alluded to in your comments, seem OpEx growth this year still looks like it did in 2010 and 23 when production has grown high single digits. And overall position around 13% of sales this year, just as you know, contemplates the lower industry growth next year as well, plus the gross margin improvement just being pushed out a little bit. Can you just double click on the opportunities to rationalize spending? Realize there's still a lot of balls in the year from an engineering standpoint right now as you drive towards those launches? The next couple of years, but can you just help us understand the path to slowing the growth rate and OpEx next year and just as a percentage of sales more broadly, where you think that audit be on a more strategic standpoint as well? And thank you.

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**Neil Boehm** - *Gentex Corp - Chief Technology Officer, Vice President - Engineering*

Yes, it's a great question. If you look at if you look at our strategy as it relates to especially the R&D spend, if you look at OpEx, the SG&A side has actually been much more muted. Most of that money has been dedicated towards R&D expenses. And I'm really has been driven by commitments that we've already made to customers committed timeline on launches have a lot of the new features. We've got several launches right now of our DMS. and CMS. They have in-depth launches, continued launches on the FDM front. And then on more on our side, we have a lot of stuff that we've showed at CES that continues to consume resources that we continue to make great progress in the development of those technologies. And are there optimistic about their ability to get to market over the next several years as you so that's kind of the current commitments that are driving the rate to stay where it was and not and not trying to cut that because of the opportunities we see for growth from those developments. But then also the already customer committed developments that we have in place on some of them are also the place product that we talked about. So if you look at the eSight launch, so our first medtech launch and then also are placed products. So can the detector product for a consumer. We continue to work on those and are approaching launches on many of those. And that's part of the reason why we see the ability to control that spend or at least the growth rate of that spend as we have head into 2025. We know that a lot of the programs that we've been in heavy development on will be launching. And so we'll be able to redeploy some of those resources to new programs. But also we've had to add a lot of contractors to help get us over this hurdle rate. And so as we move through those launches and as they move into production will be able to readdress. What does that staffing level look like? What are the appropriate spends? And what does it present more of a maintenance level of R&D that we need based off the future direction of the Company.

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**Luke Junk** - *Baird - Analyst*

Got it. Appreciate that. And I'll leave it there. Thank you

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**Neil Boehm** - *Gentex Corp - Chief Technology Officer, Vice President - Engineering*

Thank you.

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**Operator**

Thank you. Our next question comes from the line of James Picariello with BNP Paribas Exane. Your line's now open.

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**James Picariello** - *BNP Paribas Exane - Analyst*

Hi, everybody.

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**Neil Boehm** - *Gentex Corp - Chief Technology Officer, Vice President - Engineering*

Good morning

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**James Picariello** - *BNP Paribas Exane - Analyst*

My first question is on the implied growth over market for for next year, right? So So this year's guidance now calls for five points. And then for next year, you were targeting growth over market six points. Now that looks, but I know that's trending towards for. So just what's informing your your your update here on the growth over market?

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**Kevin Nash** - *Gentex Corp - Chief Financial Officer, Vice President - Finance, Treasurer*

Really it's a yes, I think you're probably onto what you just want to say it yourself. But really it's a we're a little more pessimistic on what those published vehicle production volumes are. And so we would we would target that our outperformance is still in line with what you're saying. We're just manually adjusting that idea. I mean the S&P numbers on more than what they've published.

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**James Picariello** - *BNP Paribas Exane - Analyst*

Yes. Okay. No, that's just our comments of my follow-up. Just on gross margin. So 35% to 36% achieve next year. Is that frame similarly to how it was for this year where it's achieved by a certain quarter next year? And then my very quick follow on to that is the investment income from within the EPS bridge here, it's been extremely choppy last quarter and this quarter is their stability from from here on that. That's it for me. Thanks .

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**Kevin Nash** - *Gentex Corp - Chief Financial Officer, Vice President - Finance, Treasurer*

Yes, I think on that one real quick, I would say that we would expect more stability and other income as we move forward on there was to specific incidences that happened last quarter and this quarter, both of which were the execs, involves the same underlying security. And that's what and that's what drove both those changes on. So if you look if you average those two out, it is a fairly flat on. And so if you take that out, we wouldn't expect that to happen again as we move forward. And then the other half of your question, the recall the margin profile. Yes. So you normal as we head into 25, I mean, despite all the industry, you know, production choppiness, we would expect the margin profile to really perform like it doesn't a normal year. So you'd see a little bit of a downturn on in Q1. And then in Q2, Q3 Q4 we continue to build, assuming those that are sales levels hit what we're expecting them to and so on. Usually by mid-second quarter were fully operational on PPV. that we get from our supply base. We're through most of that pain from the customer pricing side. And then we're starting to get an operational efficiencies of the new launches that are happening in the year for the year. And so I'm probably on a put us on the air. I would say probably the ability to hit that would be towards the back half of the year. It's not out of the line of questioning that it could happen sooner than that. But I would say that's historically when we've had our best performances in the second half of the year.

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**James Picariello** - *BNP Paribas Exane - Analyst*

Thanks, guys.

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**Kevin Nash** - *Gentex Corp - Chief Financial Officer, Vice President - Finance, Treasurer*

Thank you.

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**Operator**

Our next question comes from the line of Ryan Brinkman with JPMorgan. Your line is open .

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**Ryan Brinkman** - *JPMorgan - Analyst*

Hi, great. Thanks for taking my question. Just wanted to check in with you on what the impact might have again on your operations during the quarter from sudden or unexpected customer downtime, whether due to part shortages work with their need to manage inventory levels and how that compares to what your experience was in 2Q and what you might be expected 4Q or we call you calling outstanding interest inventory adjustments in June as have been impacted 2Q that companies need some additional announcements and you've seen some announcements from BMW and VW and Mercedes. Just curious what type of what your experience has been there?

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**Neil Boehm** - *Gentex Corp - Chief Technology Officer, Vice President - Engineering*

The good news is it you're exactly right. The results. There are definitely some margin headwinds and inefficiencies driven by cost. Last minute customer changes. The good news is, given our inventory levels and where we're at with the supply base, it really wasn't a incoming raw material problem. It's really about scheduling and trying to make sure you balance operations of fish, Bentley. And really what the impact there is the last minute changes to drive over time more than anything else in gross inventory more than it wouldn't necessarily need to be if we had better line of sight on and it also drives more overtime and inefficiencies and the operation side always what comes with that then as scrap and yield loss issues as well. So time you kind of hit on a couple of the key players there. Stellantis obviously has been on this very turbulent and they've been, you know, have their own struggles that we've been trying to make sure we're supporting them through, but it definitely doesn't allow for the cleanest operating environment. And so I would say probably if you look at our between our overhead and scrap and yield increases, I would say probably 30 50 basis points of headwind was in the quarter from volatility.

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**Ryan Brinkman** - *JPMorgan - Analyst*

Okay. That's super helpful chain. And can I just wanted to check in on some more questions around the other income? Super impressive on our at same time, are you able to say whether this was a mark to market on a public security or on private security and of private? Was that a market was established by an external party? Or did you sort of perceive the need to make a change or much or how the accounting works? And then and then more broadly, what is your Well, firstly, is it related to automotive technology and so you need to make those investments? Or is it just you know, you're invested in the QQQ or switch? And what's your general approach? I know you've returned a lot of capital to shareholders or relative your predecessors, but your general approach towards managing long-term investments on the balance sheet versus giving that capital to investors to invest at their discretion.

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**Kevin Nash** - *Gentex Corp - Chief Financial Officer, Vice President - Finance, Treasurer*

Yes. So we talked a little bit about it last quarter. I mean, we're in one public security And we it's publicly filed out there that we made an offer for Voxx back in May. And subsequent to that, prior to that, actually, they had a discount to their stock price traded down significantly. And so we actually made a we bought more shares in a private transaction. And since then, the stock price has gone up and they've since also entered into a deal to the market, the company. And so we're participating currently participating in that process. But you saw the mark-to-market adjustments from the Q2 on the downer side and Q3 rebound on so the now a days it is a publicly traded stock, so it's a mark-to-market adjustment. The rest of the other income, our long-term strategy really there is we do invest in fixed income investments of high yield fixed income with typically three years or less of Horizon. So we save in the medium term on the yield curve, not to create do risk and be able to liquidate if we need to that. We've been doing that for several years on this one on the public stock side is strategic in nature. And just to further clarify, we are they do have some type technology we're interested on the biometric side. They do have some automotive business. This was some stuff that does have some technology as well as long as well as some other technologies that are that they have under their portfolio.

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**Ryan Brinkman** - *JPMorgan - Analyst*

And what is their general relationship with you to do? Are they a distributor of your products? Do they manage the sales to some of your customers as you would incorporate them? Then would there be some sort of margin enhancement from vertical integration, but not as much shales and tight hole about merchant?

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**Neil Boehm** - *Gentex Corp - Chief Technology Officer, Vice President - Engineering*

You've sold for a long time. We have been they have been a distributor of ours for our products into the aftermarket. So FDM, HomeLink, some of our other featured mirrors. They've been they have a great distribution network. And so we've been we've taken advantage of that for a long time, but they also own biometric asset, formerly known as EyeLock in the aerospace. And so you've seen us demonstrate that technology for a long time today. We do it with licensing and technology agreements, but we have an interest in taking that further over time. So that's a big part of it is the potential for more access to the to the technology assets.

**Ryan Brinkman** - *JPMorgan - Analyst*

Okay. thank you, thank you so much.

**Neil Boehm** - *Gentex Corp - Chief Technology Officer, Vice President - Engineering*

thank you, Ryan,

**Operator**

Thank you. Our next question comes from the line of Ronald Jewsikow with Guggenheim Securities. Your line is now open.

**Ronald Jewsikow** - *Guggenheim Securities LLC - Analyst*

Yes, good morning and thanks for taking my questions. I wanted to make. Yes, maybe just following up on Lee's question on FDM. The kind of upside this quarter, was that more of a function of second quarter destocking and just kind of returning to trend this quarter? Are there some upcoming launches we should be excited about?

**Kevin Nash** - *Gentex Corp - Chief Financial Officer, Vice President - Finance, Treasurer*

you probably have that list of losses from I thought you would be my guess. But. Yes, like Neil mentioned, there were actually nine launches on nine new nameplates launched in the quarter. And so yes, some of those we are pretty excited about like I did mention earlier, and that question to GM at the volume was quite strong in the quarter. We did have some headwinds from some other OEMs who had some had some issues . But all in all, if you look at the growth, both with existing customers, especially GM happened in the quarter and then also followed on with the launches that Neil referenced on, that was a very strong FDM quarter.

**Ronald Jewsikow** - *Guggenheim Securities LLC - Analyst*

Okay. And then just as we go into the fourth quarter from one of your supplier peers yesterday sounded quite pessimistic on kind of the European production environment. And I do think there was a bit of a luxury brand to the softness on. I guess. Is that something you're seeing? And is there conservatism embedded in your in your fourth quarter guy to kind of reflect this just given you the ship obviously more more outside years, particularly to a luxury customers?

**Kevin Nash** - *Gentex Corp - Chief Financial Officer, Vice President - Finance, Treasurer*

Yes, I would say yes, we're definitely a little more on the pessimistic side as it relates to that market right now. I don't know that I would go quite as far as the quotes that you referenced on at least that our impact to us isn't as severe. But yes, there's definitely some risk factors there. The good news is if you look at our exposure into the European market, it's pretty well diversified. So we're not overweight really any one OEM. And so as long as there's as long as there's good geographical mix and as long as the market itself isn't down huge, we should be able to weather that storm fairly well.

**Ronald Jewsikow** - *Guggenheim Securities LLC - Analyst*

Perfect. Thanks for taking my questions.

**Kevin Nash** - *Gentex Corp - Chief Financial Officer, Vice President - Finance, Treasurer*

Thanks, Ron.

**Operator**

Thank you. Our next question comes from the line of Josh Nichols with B. Riley. Your line is now open.

**Josh Nichols** - *B. Riley - Analyst*

yes thanks for taking my question. Just to touch on the R&D initiate was a driver monitoring cabin monitoring or big focal points. You guys talked about on the company's Investor Day, you were talking about having at least one commercial launch ready. I'm just curious what the expectations in terms of timing and revenue generation, whether I presume starting with Dr. mother able maybe to cabin monitoring for next year, I would assume that could be similar like tens of millions dollars and that really builds into the model today? Or is it is kind of an upside optionality at this point?

**Steven Downing** - *Gentex Corp - President, Chief Executive Officer*

Yes. So if you look at I would say, in terms of magnitude, you're right in it for 25, that's about the right dollar amount to be thinking about for 25. Remember, though, at the end of 25 will really be are kind of second launch into 25 beginning in 26. And then throughout 26 and beyond, we expect that at least one more OEM launch. And so we're probably talking late 26, early 27 before it's a material amount of revenue. But the work is right now.

**Josh Nichols** - *B. Riley - Analyst*

And then just based on your comments earlier, right, when you're building a little bit of additional zones, like but for conservatism in regards to the forecast for next year, but that's just kind of implied as we've had some really phenomenal FDM. outperformance issue that's kind of been driving most of the light vehicle production upside up. The comments you guys have achieved. You expect that to be effectively continue at the same type of pace that you're seeing this year. Is that really is driven by an increase the adoption rate across these higher volume production goals that you're starting to see more of them whenever this offering first came out some years ago?

**Steven Downing** - *Gentex Corp - President, Chief Executive Officer*

Yes. If you look at if you look at this first, really three to four years of FDM production, it was really overweight luxury vehicles on and and full-size SUVs. And now as we move into more pickup trucks and also higher volume vehicles, really what's great about the FDM story is it's a little more trends. And then our product and what we've had in the past, really, if you look over company's entire history, most of our products, it takes seven to 10 years to matriculate out of just luxury and into volume. Brands on this technology is a little different. I mean, it fits so many use cases and then desire from consumers. And so it's been it's been a day monitoring a faster growth rate than we would have anticipated. And if you go back seven, eight years ago, I don't think we probably could have optimistically thought of something like this, but I don't think we probably could have capacitized to her home that optimism on OEM. interest is definitely there. And so we continue to just be really grateful for the success that products has had in the market.

**Josh Nichols** - *B. Riley - Analyst*

Appreciate it. Thanks.

**Steven Downing** - *Gentex Corp - President, Chief Executive Officer*

Thank you.

**Operator**

Thank you. As a reminder, to ask a question at this time, please press star 11 on your touch-tone telephone.

Our next question comes from the line of Justis stack to EBS. Your line is now open.

**Justis stack** - *EBS - Analyst*

Thank you. Good morning, everyone. I just wanted to just to sort of go back to, you know that you mentioned the conservatism baked into to 25, and it sounds like you're you're baking in something similar for f fourth quarter is sort of make sure I understand that. So it's not necessarily like the IHIS. and P. numbers. But in the press release, you're you've made some adjustments to the fourth quarter as well.

**Kevin Nash** - *Gentex Corp - Chief Financial Officer, Vice President - Finance, Treasurer*

Yes, that's correct. If you look at really we kind of see Q4 looked at a lot a lot more like Q3 plus forecast in Q4 and saying, okay, you somewhere between these two sets of numbers and then on a little bit of an adjustment manual adjustment to those, because we do think there's a little more risk, especially in this second half of Q4 versus what the data would show.

**Justis stack** - *EBS - Analyst*

Okay. So that's really the second question, which is, you know, you're just doing the math. I mean, your guidance, so sort of imply, right, fourth-quarter sales, you know, flattish maybe down a little bit at the midpoint for Q3, but it seems like a market, the gross margin was 80 basis points higher. And I'm just I know I think you typically do have some sort of seasonal uptick, but like you mentioned in your prepared remarks, some of the mix headwinds that you've seen this quarter. So is there anything else sort of really driving that margin higher quarter over quarter that we should call out like? And any help in understanding some of the puts and takes would be would be appreciated.

**Kevin Nash** - *Gentex Corp - Chief Financial Officer, Vice President - Finance, Treasurer*

Well, I think we had we definitely had some mix issues in Q3 beyond just overall volumes. And so we think some of those mix issues will probably lighten up in Q4 to Q3, which would help us get a little bit of a tailwind if you're comparing to Q4 last year margin, however, I would say it's not going to get there last year was helped. We had a lot of pricing and one-time recovery, salaries and other things happening last year, calendar year that were not having the same benefit from this year. And so if you look at our recurring maintenance margin level, on Essence, I would say a little bit fairly similar to what we just posted in Q3 or slightly better would probably be like are optimistic version of what margin profile look like in Q4.

**Justis stack** - *EBS - Analyst*

Okay. Thanks. That's very helpful. Appreciate it.

**Kevin Nash** - *Gentex Corp - Chief Financial Officer, Vice President - Finance, Treasurer*

Thank you.

**Operator**

Thank you. I'd now like to hand the conference back over to Josh O'Berski for closing remarks.

**Josh O'Berski** - *Gentex Corp - Marketing and Investor Relations*

Thank you. As reminder, we will be attending CEM in November and CES in January, and welcome investors in our booth. If you're interested in joining us at either of these events, please reach out to me that this concludes our call. Thank you, everyone, and have a great weekend.

**Operator**

This concludes today's conference call. Thank you for your participation. You may now disconnect.