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GNTX.OQ - Q2 2023 Gentex Corp Earnings Call

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**OVERVIEW:**

Company Summary

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**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*

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

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

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

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

## PRESENTATION

**Operator**

Good day, and thank you for standing by. Welcome to the Gentex's Second Quarter 2023 Financial Results Conference Call. (Operator Instructions). Please be advised that today's conference is being recorded. I would now like to hand the conference over to your host today, Josh O'Berski, Director of Investor Relations. Please go ahead.

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

Thank you. Good morning, and welcome to the Gentex Corporation Second Quarter 2023 Earnings Release Conference Call. I'm Josh O'Berski, Gentex's Director of Investor Relations, and I'm joined by Steve Downing, President and CEO; Neil Boehm, CTO; and Kevin Nash, Vice President of Finance and CFO. This call is live on the Internet and can be reached by going through the Gentex website at ir.gentex.com.

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This conference call contains forward-looking information within the meaning of the Gentex safe harbor statement included in the Gentex reports second quarter 2023 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 get us started today.

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

Thanks, Josh. For the second quarter of 2023, the company reported net sales of $583.5 million compared to net sales of $463.4 million in the second quarter of last year, a 26% quarter-over-quarter increase and a new quarterly sales record for the company. For the second quarter of 2023, global light vehicle production in North America, Europe, Japan, Korea and China, increased approximately 18% when compared to the second quarter of last year.

So far, 2023 has proven to be the opposite of the last few years with year-to-date sales levels coming in higher than our beginning of the year forecast. As a result of the improvement in light vehicle production, fewer supply chain challenges and the continued strong demand for our products, this quarter resulted in an outperformance of 9% compared to our primary markets, which include North America, Europe, Japan and Korea.

The company's growth is being driven by penetration rates of our core electrochromic technology, continued growth in our Full Display Mirror product line and adoption of other value-add features in the market.

For the second quarter of 2023, the gross margin was 33.1% compared to a gross margin of 32% for the second quarter of last year. The second quarter of 2023 gross margin increased on a quarter-over-quarter basis as a result of the significantly higher sales levels, manufacturing improvements, cost recoveries from OEMs and improvements in freight-related costs and product mix.

Some of these improvements were partially offset by increased raw material and labor costs as compared to the second quarter of last year, but still resulted in a 110 basis point increase in gross margin on a year-over-year basis. When compared to the first quarter of 2023, the gross margin in the second quarter increased from 31.7% to 33.1% as a result of better overhead leverage from the higher sales levels, customer cost recoveries realized in the second quarter and improvements in overtime costs, which helped to offset certain incremental raw material cost increases that took effect in the first half of 2023.

Late last year, we formulated our plan for margin recovery that we estimated would take until the end of 2024 to complete. So far, I'm very pleased with our progress and believe we are well on our way to accomplishing the goal of achieving a gross margin of 35% to 36% by the end of next year.

Operating expenses during the second quarter of 2023 increased by 5% to $65.8 million compared to operating expenses of $62.6 million in the second quarter of last year. Operating expenses increased quarter-over-quarter, primarily due to staffing and engineering-related professional fees, which were partially offset by lower outbound freight expenses.

Our operating expenses started to ramp as expected during the second quarter and will continue to build throughout the rest of the calendar year as we add resources focused on new product research and development, new business awards and VAVE initiatives for cost optimization of our bill of materials. Income from operations for the second quarter of 2023 was $127.3 million, a 48% increase when compared to income from operations of $85.8 million for the second quarter of last year.

During the second quarter of 2023, the company had an effective tax rate of 15.1%, which was primarily driven by the benefit of the foreign-derived intangible income deduction. Net income for the second quarter of 2023 was $109.2 million compared to net income of $72.4 million for the second quarter of last year, which represents a 51% increase.

The increase in net income was primarily the result of the quarter-over-quarter increases in net sales and operating profits. Earnings per diluted share for the second quarter of 2023 were $0.47, a 52% increase when compared to earnings per diluted share of $0.31 for the second quarter of 2022.

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

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

Thank you, Steve. Automotive net sales in the second quarter of '23 were $574.1 million, a 27% increase when compared to $452.9 million in the second quarter of '22. Auto-dimming mirror unit shipments increased by 21% during the second quarter compared to the second quarter of last year. Other net sales in the second quarter of '23, which includes dimmable aircraft windows and fire protection products, were $9.4 million compared to other net sales of $10.5 million in the second quarter of '22.

Fire protection sales decreased by $3.6 million for the second quarter of '23 compared to the second quarter of '22. And dimmable aircraft window sales increased by $2.5 million for the second quarter of '23 compared to the second quarter of last year.

Share repurchases. During the second quarter of '23, the company repurchased 0.9 million shares of its common stock at an average price of $27.28 per share.

As of June 30, 23, the company has approximately 18.8 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 will vary from time to time and will take into account macroeconomic issues, market trends and other factors the company deems appropriate.

Looking at the balance sheet. Balance sheet comparisons mentioned today are as of June 30, '23 as compared to December 31, '22. Cash and cash equivalents were $237.7 million compared to $214.8 million. Short-term and long-term investments combined were $259.8 million, up from $225.3 million, which includes fixed income investments as well as the company's equity and cost method investments.

Accounts receivable was $350.4 million, up from $276.5 million due to the increase in sales levels. Inventories were $390 million, down from $404.4 million and accounts payable increased to $168.5 million, up from $151.7 million.

Looking at preliminary cash flow items for the quarter and year-to-date. Second quarter '23 cash flow from operations was $120.9 million, which was an increase from $73.3 million in the second quarter of last year.

The increase was due to increases in net income and shifts in working capital. And year-to-date cash flow from operations was $241.8 million, an increase from $189.3 million in '22, also due to increased net income and changes in working capital.

Capital expenditures for the second quarter were $47.5 million compared with $34.1 million for the second quarter of '22. And year-to-date capital expenditures were $90.3 million compared with $58 million for year-to-date '22.

Depreciation and amortization for the second quarter was $24.8 million compared with $25.3 million for the second quarter of '22. And year-to-date depreciation and amortization was $48.9 million compared with $50 million for year-to-date '22.

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

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

Thank you, Kevin. For today's product update, we're going to focus on 3 key areas: first, our launch rate for the quarter; second, Full Display Mirror volumes for the quarter and full year; and third, our focus on bond reduction now that supply constraints have improved.

In regards to launch rates, in the second quarter of 2023, there were 35 net new nameplate launches of our interior and exterior auto-dimming mirrors and electronic features net of previously disclosed feature headwinds.

The second quarter was an extremely heavy launch quarter and was very strong in advanced features. In the quarter, 60% of the net launches contained advanced features with Full Display Mirror and HomeLink leading the way.

Now for an update on Full Display Mirror. Full Display Mirror continues to maintain momentum with our customers through increased launches and with consumers that have helped to drive increased take rates and volumes.

In the first quarter of 2023, we stated that we are expecting our 2023 unit volume to be at least 300,000 units higher than our 2022 volume. Based on the results of the first half of the year and our current forecast for the remainder of 2023, we now believe our Full Display Mirror unit growth will be approximately 500,000 units higher than our 2022 volume.

We're excited to see this product continue to grow across so many different vehicle platforms globally. Throughout the second quarter of 2023, we've continued to see improvements in supply constraints that have been forcing us to execute a significant number of redesigns. With the majority of these challenges behind us, we can begin to evaluate our designs and component strategies from a cost perspective.

Over the last 2 years, we've incurred significant cost increases due to the reactionary mode we needed to be in, but we're now turning our focus on the designs, the components and the suppliers of the components in an effort to drive down our bill of material costs. Our strategy is very straightforward, work with our key supplier partners to find win-win situations that allow us both to have sustainable, profitable growth.

Finally, I want to say thank you to the Gentex team. This team continues to do an incredible job working through issues and challenges, all while launching new products at the highest rate in company history. It has been truly impressive.

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

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

Thanks, Neil. The company's current forecast for light vehicle production for the third quarter of 2023 and full years 2023 and 2024 are based on the mid-July 2023 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 3% for the third quarter of 2023 as compared to light vehicle production for the third quarter of last year.

For calendar year 2023, light vehicle production in these markets is forecasted to increase approximately 6% when compared to last year. It is important to note that these estimates do not include any estimated impact stemming from potential labor issues in the second half of this year.

Based on this light vehicle production forecast, the company is updating certain guidance estimates for calendar year 2023. We are increasing our revenue estimates for the year, which is now expected to be between $2.2 billion and $2.3 billion. We are also raising the bottom end of the range for gross margins for the year as we are now expecting gross margins to be between 32.5% and 33% for the year.

Operating expenses are still expected to be between $260 million and $270 million. We are lowering the high end of our estimated annual tax rate for the year, which is now forecasted to be between 15% and 16%. Capital expenditures are still expected to be between $200 million and $225 million. And our depreciation and amortization forecast remains unchanged and is expected 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 to be between $2.45 billion and $2.55 billion.

The second quarter of 2023 produced revenue levels that were both record-setting and better than our initial expectations. Additionally, the company continued to make progress on our path towards improved profitability, and we are now executing our next wave of cost improvement initiatives that are necessary for us to accomplish our goal of reaching the 35% to 36% gross margin range by the end of 2024.

While the remainder of 2023 and 2024 had the potential to be impacted by industry challenges and macroeconomic issues, we continue to remain optimistic about our product portfolio, our growth estimates and our ability to control costs. These factors should come together over the next 18 months to produce record revenue and profitability for the company.

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

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## QUESTIONS AND ANSWERS

**Operator**

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

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

Steve, hoping to start with gross margin. Based on both the result this quarter and guidance moving higher, it appears that some elements of the gross margin improvement plan that you've laid out are maybe progressing faster than expected. Can you just talk about where you're seeing upside leverage to gross margin sooner or all it's equal and the sustainability of those factors? And then with respect to the next wave of gross margin initiatives that you're moving to right now, are some of these coming sooner than you may have initially thought?

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

Yes. No, thanks for that question. You're right on with the underlying principle. The -- really, what's driving margins higher and faster than really we had even anticipated was this really strong growth in revenue. What happens with this higher level of sales allows us to leverage the manufacturing overhead portion of the business quite well. And then as we mentioned before, we've had a lot of new hires over the last 6 months.

And so the folks getting onboarded, trained starting to see the improvements in labor. Obviously, labor costs themselves have gone up significantly, but the team has been able to show increased throughput, which has helped to offset some of those higher labor costs.

Beyond that, the cost recoveries from OEMs have actually come in a little quicker than anticipated and, quite honestly, more meaningful than what our initial estimates were. Obviously, with some of the slowdown in what's happening in the industry, there's been some significant improvements in freight costs.

And so that's helped us on the -- both on the incoming side for bill of material costs with raw materials, but then also on the SG&A side as we've had lower expedited freight cost getting components to our customers. And so when you look at the next wave of those cost improvement initiatives, really what we're focused on right now is continuing to get pricing adjust, obviously, trying to slow down the cost increases from the supply base.

And then as we move through the second half of this year and into next year, we're going to be focused, as Neil mentioned, on bill of material focus, a lot of components we had to go to based on availability were at higher BOM prices, not just the increases from the suppliers, but also changing components to the ones that were available. We believe over the next couple of years, there will be a lot of opportunity for us to focus on that bill of material on the supply base to make sure we have cost optimized designs.

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

For my follow-up, I just wanted to look at the updated 2024 view that you gave. It implies the company is going to be driving outgrowth above the ranges that you've historically targeted for a second consecutive year in quite a meaningful way. Just wondering, what's driving that? Are we seeing higher FDM executions reflected in that? I appreciate the update on 2023 that Neil gave. Should we think about that into 2024 as well? Or is there something else that's reflected in the expected outgrowth?

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

Yes, there are several things. One of them is definitely continued growth in the FDM product portfolio expansion with more OEMs and new vehicles and take rates. The other one is we've actually been on a couple of year run of significantly higher OEC volumes. We believe that will obviously continue to show some strength in terms of outside mirror volume growth.

And then we're expecting by the end of next year to start seeing some of the other new features starting to come online, things like DVR, some ITM volumes coming back, now that we can finally have components that we need to produce those. But there's other advanced features towards the end of next year that we believe we'll be launching as well that will start to show some meaningful growth for the business.

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**Operator**

Our next question comes from the line of Ron Jewsikow with Guggenheim Securities.

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

Just on ASPs, they really pick out this quarter to the upside. Maybe just a breakout of how much of that, I think it's almost 5% quarter-over-quarter growth was pricing versus, I think, FDM probably normalizing supply chain to the upside helped as well. But just -- it didn't stick out given the exterior mirror growth this quarter being quite a bit stronger than interior, still seeing big ASP upside.

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

Yes. I think most of that -- almost all of it is really attributable to advanced features on inside. So really FDM being the strength there. Some of the other mix was also good. Features like HomeLink did really well. So the inside advanced feature. And if you look at the product mix for us, especially being a hair overweight in North America and Europe really does pan out well for us on the product mix and ASP side.

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

Okay. And for pricing, just nothing sticks out on the retro side? I know you called out in the fourth quarter, there was some retroactive pricing, but pretty clean in terms of like ongoing pricing this quarter.

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

That was probably 75 basis points to 100 basis points on the top line from the onetime nature of pricing.

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

Well, and recurring.

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

And then recurring.

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

Okay. Unfortunately, but that's still -- okay, it's recurring, but it came through this quarter. Okay. And just one more quick one, maybe reading between the lines a bit. But Neil's prepared remarks, it did sound like FDM take rates or OEM demand has been quite a bit stronger than you expected. And maybe just how much of that upside the 500,000 versus the 300,000 prior is light vehicle production versus things like supply chain take rates and customer demand.

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

Yes, great question. So looking at the information, a lot of it -- we talked about this actually late last year that last year when we started launching with customers like Hyundai, there was a direction and a want of having a much higher take rate than what we could support due to component availability.

So what we've seen a great increase in this as component availabilities improve, we've been able to actually produce the parts that they wanted and are actually able to catch up to it. So as our increase goes from greater than 300,000 to the 0.5 million roughly for this year, a big portion of that is due to our ability to actually supply the parts that the customers have wanted and that the consumers have asked for.

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

I think what's been very interesting is last year, like Neil mentioned, when we weren't able to hit the higher volumes they were requesting, the question is, will that demand still be there once capacity has finally come online from the supply base. And the good news is that we didn't seem to have hampered demand for that product by not being able to deliver last year.

So pretty excited to see -- and Neil mentioned, there's been several launches. Ron you're probably better than anybody at tracking those, probably know some of them before we do. But you noticed there's some -- there's been some volume brands that have come online with that product, and the execution and take rates have been better than we anticipated.

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**Operator**

Our next question comes from the line of John Murphy with Bank of America.

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

Just a first question on the grosses. I mean, the back half number kind of implies something roughly 32.5% to 34% on gross potentially, which is kind of a wide range. I'm just curious if you can give us sort of how you're thinking about the low end and then the high end of the range? And is it really just due to operating leverage if volume is coming through better than expected? Or are there other big factors in there?

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

Yes. I think on the -- in order for -- we kept that range -- you're right. I mean, if you look at the implied math, the bottom end of that range is really focused on if something more drastic happens in the second half of this year due to some of the labor disputes. We know from 2019, what that looked like for us from a loss revenue perspective. And then what that would mean from an overhead standpoint.

I wouldn't estimate that anything that happens there would have that drastic of an impact, but you're always a little worried about product mix and which OEMs are impacted and what that means to your total product portfolio and book of business.

On the high end, what we would need to do to get there is we're going to have to continue to see if some cost recoveries and operate at these levels of revenue, because it really helps on the overhead side. And that's where the margin expansion is really coming from right now is lower over time, but better throughput and better manufacturing overhead leverage due to higher sales levels.

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

And just a follow-up then on the 35% to 36% target by the end of '24. I mean if we exit this year on the high end of what you're implying for the second half of 34% -- I mean, 35% to 36% with upside, assuming the industry is growing as expected and maybe even better than expected. Those seem like -- they seem like potentially conservative numbers just on operating leverage.

If you think about the cost actions, the exit -- assuming the exit rate is 34%, may cost actions, what you're counting on to drive that 100 to 200 basis point expansion? I mean, what kind of incremental gross margin you're going to drive from those cost actions? So maybe we could think about them separately from operating leverage and other sort of raw and labor inflation costs.

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

Yes. So when you look at the exit velocity this year heading into next year, you're exactly right. I mean part of that gross margin expansion is going to be driven by the sales growth in the business. And the same factors we just talked about for so far this year and the second half of this year, the higher level of revenue helps the manufacturing overhead.

Internally, we've got some cost things we have to control better. So get with the newer employees and the rate we've been running, we can focus on scrap costs, over time, yield and throughput. And so those are all opportunities that we've targeted and have in place as part of our goals for the back half of this year heading into next year.

And then Neil's point, a lot of things we're working on the VAVE side to get the bill materials lower on a per product basis is going to be part of that growth and expansion in the gross margin for next year. A lot of the bill materials initiatives that Neil is looking at are going to last beyond 2024 and really push into 2025 and beyond before we get the full benefit of product redesigns that are focused on cost savings instead of just trying to get redesigns done to be able to ship anything.

So we're really talking about it more even than the end of 2024 trajectory. There may be some upside to those numbers if we hit all the things perfectly. I think the thing we're a little focused on to is that there'll probably be some more headwinds that we haven't accounted for. And so those estimates might be a little conservative.

But we're also looking at a larger book of business and not everything inside that book of business and some of the new features are going to be above average gross margins. So we know that with the expansion and growth in the business, there's going to be a natural headwind to some of those products and what the profitability of those products look like.

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

Okay. And one -- just last one. How many mirrors are you shipping into China right now on a maybe quarterly or annual basis?

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

Well, on a revenue basis, it's about 9% of our total book of revenue. So I mean, it's a little higher from a unit perspective because it's more base mirrors, but it still remains under 10% of our total revenue for the company.

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**Operator**

Our next question comes from the line of David Whiston with Morningstar.

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

Can you hear me?

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

Yes.

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

Just curious with a really nice upward recovery in which I know you've been waiting for volume to come back for a long time, and it finally has, and that's great. But was there also any kind of more just like nonrecurring things that benefited this quarter that probably won't be as strong there at all rest of the year?

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

No. I mean on the margin side, you had 50 to 60 basis points of nonrecurring price recoveries, so onetime in nature, retroactive to help offset some of the costs that we incurred over the last 18 months. But other than that, everything else in the quarter should be recurring. There wasn't any onetime pickups on sales, for instance, or any abnormal sales activity.

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

Okay. And are there any geographies recovering faster or slower than the others? And in particular, I'm wondering if Japan really bounced back hard upward in the upper direction this quarter?

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

Yes. Well, if you look at overall production, I mean, our primary markets being North America, Europe, Japan, Korea, all those were actually very strong. And heading into Q3, global light vehicle production is going to be down 3%. But the reason why we're still optimistic about the back half of the year is that most of that impact on the negative side is coming from the China market in Q3. We continue to see quite a bit of recovery in the Japan, Korea markets, really, we think, not only in Q2 but through the rest of the year.

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**Operator**

(Operator Instructions) Our next question comes from the line of Charlie Sloan with Oak Family Advisors.

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**Charles Melcher Sloan** - *Oak Family Advisors, LLC - President*

And I have a question for Steve first, which is with the OEMs after the big adjustment with all the supply chain issues, has that relationship changed more durably to be more of a partnership if it wasn't before or not?

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

That's a great question. Every OEMs actually handle this very differently. And I would say in certain situations with OEMs, that's absolutely the case where we've gotten more collaborative. One thing we're trying to do as a supplier is talk more candidly with OEMs about our future processing platforms and who our preferred partners are from a micro standpoint, maybe it was an industry challenge and mistakes that we've all made together as we're working on new technology.

But historically, most suppliers have gone off, picked their own platforms, kind of started to engineer design, build proof of concepts, really without sharing much of that until they had a product ready. We're trying to be more proactive and make sure we're sharing that information with OEMs to make sure we're not designing around a platform that an OEM -- that's not part of an OEM strategy, especially if there are certain micro platforms that they prefer to stay with or to move away from.

So I think every OEM's handling that differently. Certain of our relationships were maturing as a supplier to try to be more proactive in that area. So we don't end up in the situation again.

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**Charles Melcher Sloan** - *Oak Family Advisors, LLC - President*

Okay. And then so we should expect still kind of cost reductions in the first quarter or price reductions in the first quarter of future years?

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

Yes, there's -- it's going to be very -- it's going to be much less than what the last few years have been. One of our big push with OEMs has been, hey, we need some cost help on the bill of material increases that we've eaten by ourselves over the last 2 years. Some of those -- some OEMs have been better about that than others. The ones who haven't assisted there were having tougher conversations with about out-year productivity isn't going to happen for a long time because we have to get back to where our normalized bill of material was a few years ago.

And we're eating labor costs that are much higher than what they were in the past. So what we're looking at with each OEM is a different relationship. There will be some that will start in Q1, but it won't be nearly as significant as years in the past. We're -- a lot of times 2% to 3% is kind of what we saw of the top on January 1. It's going to be far less than that starting in '24.

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**Charles Melcher Sloan** - *Oak Family Advisors, LLC - President*

So Kevin, I just have a question on your mutual fund operations. On the $500 million in cash and marketable securities, how much of that is equity method. Can you disclose that?

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

It's about -- so we have a couple -- we have probably about $50 million of equity method investments, a couple of specific investments.

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**Charles Melcher Sloan** - *Oak Family Advisors, LLC - President*

That's fine. So of the $400 million I'm using numbers, $425 million, $440 million. How much of that is stocks versus bonds?

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

Very small. We have less than around $1 million in stock. That's about it. The rest of it's fixed income -- well out of that $250 million or $240 million is just cash.

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**Charles Melcher Sloan** - *Oak Family Advisors, LLC - President*

And what is the yield on that cash?

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

The cash yield is about 450 basis points currently. And actually, we've got some -- that continues to move north. And then on the fixed income side, we have a bunch of floaters that are actually moving with the market as well. some of the stuff that we have from -- that have longer maturities, have lower yields because we were invested in 3- to 5-year securities with longer -- with lower rates.

So we're just working our way through those and strategically trying to move out of them if we find other opportunities. But the fixed income market went upside down when the rates moved up so quickly.

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**Charles Melcher Sloan** - *Oak Family Advisors, LLC - President*

Right. And so when you look at your core operations, and you think about your ROEs there and you think about the cash and the nonequity investments. This -- the cash is adding, say, I don't even know, probably $0.03, $0.04 a share?

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

Yes, probably.

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**Charles Melcher Sloan** - *Oak Family Advisors, LLC - President*

Okay. And so that is obviously hurting your ROEs, right, and has for a long time. And so what investments can we make -- and I'm not saying buy back shares, but what investments can we make to actually improve the ROEs overall, even more?

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

Well, I mean, that -- again that's strategic...

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**Charles Melcher Sloan** - *Oak Family Advisors, LLC - President*

Because we're shareholders.

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

Yes, absolutely. No, I think that's a combination really of our overall capital allocation strategy of funding the R&D sufficiently as far as new product development. I mean, that's our preference, and we've always talked about that as our preference. But as a Midwestern company, we are -- we like to remain nimble as it relates to future acquisitions that do increase our ROE and ROIC because we realize the ongoing cash flow is our preference versus just buying back shares or holding cash.

But part of how we've been successful in the past is having cash powder dry, if you will, for an acquisition and being able to move quickly without the help of banks or financing. So that's really been our strategy, and we continue to have a balanced approach as it relates to liquidity and availability.

**Charles Melcher Sloan** - *Oak Family Advisors, LLC - President*

And so are there any acquisitions on the horizon that you could see that would use some of that cash that would help?

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

Yes. I mean, we're always focused on looking for opportunities. I think one of the things that we've struggled with is the valuations of a lot of the acquisition targets just haven't made sense to us. And so one of the hurdle rates we look at is saying, hey, what is the return profile of share repurchases versus acquisitions?

And you have to look at those over a long period of time. And so far, we've had most of the acquisitions we've done have been smaller technology plays, startups, new tech instead of an existing income statement acquisition. We're not opposed to it, and we continue to look a lot. Unfortunately, over the last few years, valuations really haven't declined as much as we had hoped.

We were -- I was pretty optimistic that given the higher interest rate market and some of the things that were happening that acquisitions and valuations were going to drop. And it has, to some degree, but not to the extent to which I had hoped and not to the extent to which we are ready to go acquire something that was a better return profile than share repurchases, investing in R&D and small technology acquisitions.

**Charles Melcher Sloan** - *Oak Family Advisors, LLC - President*

Right. Okay. So maybe the question is just generally how much cash you need. But that's a separate question.

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

Just $1 more.

**Charles Melcher Sloan** - *Oak Family Advisors, LLC - President*

Yes, exactly. Well, it's a tale of 2 cities, right, from last year to this year, and it's wonderful to hear kind of how strong you are on the operational side. And -- so we just look forward to seeing more of that in the future. And hopefully, things will work out good for a change instead of getting some bad luck on the other side. So anyway, great quarter, and we'll look forward to seeing Gentex in the Federal Reserve minutes of companies that don't need more capital to raise.

**Operator**

Our next question comes from the line of James Picariello with BNP Paribas Exane.

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

Can you hear me?

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

Yes, James.

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

So as we think about the second half on a year-over-year basis, where are you seeing deflationary trends in the supply chain from a sourcing perspective, right? This would be separate from your cost recoveries progress on the net pricing front. Just curious where you're actually seeing costs come down in the back half?

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

Yes. You're starting to see some really -- in the second half versus last year, what we're really anticipating is better freight cost for sure. What you're starting to see is some deflationary pressures in metals and plastics and some of the precious metals. They're running at really high levels really over the last 18 months. So we're expecting those to continue to at least stabilize, if not get better.

On the electronic side and really on the glass side, we're still seeing some inflationary pressures. We're hoping that through some supplier changes and through some co-development and engineering that we're going to be able to offset those.

But that's going to take work. And so we know some of these we can do just through growing the book of business of the suppliers. Some of this by consolidating suppliers, we can potentially get savings. In other cases, we're going to have to make some supplier changes in order to get to our cost targets.

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

Got it. No, that's super helpful. And then just on the net pricing recoveries front, what is the baked-in assumption in the guidance at this point? I mean, is it closer to neutral or trending toward that positive 100 basis points that was once discussed. Where are we in that for the guidance?

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

Yes. I mean we're close to that 100 basis points. That's kind of what's been realized so far in what we're -- I mean what we -- between the temporary or the recoveries and the permanent price increases. That's what we're tracking towards and planning for working towards by the end of the year.

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

Got it. And then just lastly for the -- for next year, the 2024 target. Last quarter, you were calling for plus 10% revenue growth on a plus 3 global LVP, now with the growth of our markets 10 points instead of 7. Is that 10 points of growth over market, the right way to be thinking about it as we flex -- as global LVP changes for next year, is the 10 points the right marker?

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

I would say somewhere in that 7% to 10% is probably the right range. What we're looking at and the reason why you saw us take a little bit more aggressive stance as a lot of customer orders are starting to firm up now through the second half and into next year. And so we wouldn't expect massive changes in take rates, for instance, on FDM, lower than what they are currently.

And so really, the strength in the first half of this year, especially in FDM volumes gave us the confidence to say, okay, we're not expecting any retrench and take rates on those technologies and features. So the incremental business is really what we're looking at and estimating what that's going to look like.

And that's -- we feel pretty good about the second half of this year and where we're heading into next year from an overall revenue standpoint based on the product portfolio.

**Operator**

We have a follow-up question from the line of Ron Jewsikow with Guggenheim Securities.

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

Yes. Just real quick on the 2024 guide. Sounded like there was something in the new product side launching in the second half of next year. I understand it might be a bit early to talk about that. But just -- any update on either dimmable surfaces or driver monitoring anything that could be driving the new product launch in the back half of next year?

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

Yes. I think what we're really focused on right now is making sure on the large area device side, making sure we're working on the underlying tech. So it's really not about LAD launch in the back half of next year, but some of the other features that we've been showing at CES have been getting traction over the last couple of years, and we're expecting a couple of those to hit the marketplace late next year.

**Operator**

That concludes today's question-and-answer session. I'd like to turn the call back to 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. Have a good weekend.

**Operator**

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