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GNTX.OQ - Q4 2021 Gentex Corp Earnings Call

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OVERVIEW:

Co. reported 2021 net sales of $1.73b, net income of $360.8m and diluted EPS of $1.50. For 4Q21, Co. reported net sales of $419.8m, net income of $84.2m and diluted EPS of $0.35. Co. expects 2022 revenue to be $1.87-2.02b.

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PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to the Gentex Fourth Quarter and Year-end 2021 Financial Results Conference Call. (Operator Instructions)

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

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

Thank you. Good morning, and welcome to the Gentex Corporation Fourth Quarter 2021 Earnings Release Conference Call. I'm Josh O'Berski, Gentex' Director of Investor Relations, and I'm joined by Steve Downing, President and CEO; Neil Boehm, Vice President of Engineering and CTO; and Kevin Nash, Vice President of Finance and CFO.

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

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

Thanks, Josh. For the fourth quarter of 2021, the company reported net sales of $419.8 million compared to net sales of $529.9 million for the fourth quarter of 2020. The company's revenue during the quarter was impacted by a 20% quarter-over-quarter reduction in light vehicle production in the company's primary markets of North America, Europe, Japan and Korea. The industry-wide electronics component shortages further impacted the company's revenue negatively during the fourth quarter of 2021. During the quarter, the electronics component shortages primarily impacted the company's ability to meet customer demand for Full Display Mirrors, Integrated Toll Modules and other advanced feature unit shipments. Up until the fourth quarter of 2021, the combination of the company's conservative inventory position, along with significant efforts to redesign affected products, allowed us to avoid having any meaningful shipment issues stemming from the industry-wide electronics component shortages. But in the fourth quarter, the shortages began to impact our customer shipments as well. During the fourth quarter, the company -- estimates that customer order changes driven by lower light vehicle production and electronic component shortages resulted in under shipments of about $85 million in revenue for the quarter. Obviously, impacting our customers by not being able to fully meet their demand is extremely disappointing. However, the team did a remarkable job of completing complicated redesigns in record time to avoid more significant customer shortages.

Looking into 2022, we are forecasting growth in FDM based on pent-up demand as well as several new FDM program launches, which we expect to accelerate our growth into 2022 and 2023. The gross margin in the fourth quarter of 2021 was 34.3% compared with near-record gross margins of 40.9% in the fourth quarter of 2020. The gross margin was primarily impacted by the lower quarter-over-quarter revenue, especially in the company's primary markets as well as the lost revenue created by the electronics component shortages. Other factors impacting gross margin in the fourth quarter of 2021 were raw material cost increases, freight-related cost increases, labor cost increases driven by higher wages and labor inefficiencies created by last-minute changes in customer demand and electronics component shortages. The fourth quarter of 2021 bought the perfect storm of lower revenue, significantly higher material costs, higher shipping costs and higher labor costs and inefficiencies that negatively impacted gross margins more than we originally forecasted. While many of these headwinds will continue into the first half of 2022 we believe we have the ability to offset some of the impacts to gross margins as we move throughout the year.

Operating expenses during the fourth quarter of 2021 were up 3% to $56 million when compared to operating expenses of $54.3 million in the fourth quarter of 2020. Income from operations for the fourth quarter of 2021 was $88 million as compared to income from operations of $162.4 million for the fourth quarter of 2020.

During the fourth quarter of 2021, the company had an effective tax rate of 5.8%, which is lower than our forecasted tax rate and was driven by increased benefits from the foreign-derived intangible income deduction and discrete benefits from stock-based compensation. In the fourth quarter of 2021, net income was $84.2 million as compared to net income of $142.3 million in the fourth quarter of 2020. Earnings per diluted share in the fourth quarter of 2021 were $0.35 as compared to earnings per diluted share of $0.58 in the fourth quarter of 2020. For calendar year 2021, the company's net sales were $1.73 billion, which was an increase of 3% compared to net sales of $1.68 billion in calendar year 2020. In a year where light vehicle production in the company's primary markets declined by 3%.

For calendar year 2021, the gross margin was 35.8% compared with a gross margin of 35.9% for calendar year 2020. For calendar year 2021, operating expenses increased 2% to $209.9 million when compared to operating expenses of $205.9 million for calendar year 2020. For calendar year 2021, the company's effective tax rate was 13.3% as compared to an effective tax rate of 15.6% for calendar year 2020.

Net income for calendar year 2021 was $360.8 million, up 4% compared with net income of $347.6 million in calendar year 2020. Earnings per diluted share for calendar year 2021 were $1.50 compared with earnings per diluted share of $1.41 in calendar year 2020, which represents a 6% increase on a year-over-year basis.

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

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

Thanks, Steve. Automotive net sales during the fourth quarter of '21 were $409.6 million, which compared to $521.6 million in the fourth quarter of '20. The 20% quarter-over-quarter reduction in light vehicle production in the company's primary markets led to an 18% reduction in quarter-over-quarter mirror unit shipments. For calendar year '21, automotive net sales were $1.69 billion, which was a 3% increase over '20, and was driven by auto-dimming mirror unit shipment growth of 9%.

Despite light vehicle production in the company's primary markets that decreased by approximately 3% during the same period. This overall growth was highlighted by the company's auto-dimming exterior unit shipment growth of 21% year-over-year. Other net sales in the fourth quarter, which includes dimmable aircraft windows and fire protection products, were $10.2 million, an increase of 23% compared to $8.3 million in the fourth quarter of '20. And fire protection sales increased by 32% for the fourth quarter of '21 when compared to the fourth quarter of '20.

Other net sales for calendar year '21 were $33.9 million compared to $40 million in calendar year 2020. And fire protection sales increased by 10% year-over-year, dimmable aircraft windows were down 48% in '21 compared to calendar year 2020. The company expects that dimmable aircraft window sales will continue to be impacted until there is a more meaningful recovery of the aerospace industry and the Boeing 787 production levels in (inaudible).

Share repurchases. The company repurchased 0.6 million shares of its common stock during the fourth quarter of '21 at an average price of $34.18 per share. For the year ended December 31, the company repurchased 9.6 million shares of its common stock at an average price of $33.83 per share for a total of $324.6 million. As of December 31, '21, the company has 24.8 million shares remaining available for repurchase pursuant to its previously announced share repurchase plan.

The company intends to continue to repurchase additional shares of its common stock in the future in support of the previously disclosed capital allocation strategy, but share repurchases may vary from time to time and will take into account macroeconomic issues, including the impact of the COVID-19 pandemic and electronic shortages, market trends and other factors the company deems appropriate. Let's take a quick look at the balance sheet. Balance sheet items mentioned today are valued as of December 31, '21 and are compared to December 31 of '20, unless otherwise noted. Cash and cash equivalents were $263.3 million, down from $423.4 million, primarily due to share repurchases, dividend payments and capital expenditures that more than offset cash flow from operations. Short-term and long-term investments combined were $213.1 million, up from $189.2 million. Accounts receivable was $249.8 million, down from $284.9 million due to the lower sales in the current period. Inventories were $316.3 million, which increased from $226.3 million. The majority of this is changes in raw materials. And accounts payable increased to $98.3 million, up from $84.8 million, primarily increased raw material purchases.

Quickly looking at the cash flow statement for the fourth quarter. Cash flow from operations was $69.1 million compared with $135.4 million in the fourth quarter of 2020. Operating cash flow was impacted by the lower net income quarter-over-quarter as well as shifts in working capital and deferred taxes. In calendar year 2021 cash flow from operations was $368.5 million, down from $464.5 million for calendar year '20.

CapEx for the fourth quarter was $30.8 million compared with $14.7 million for the fourth quarter of 2020 and calendar year 2021 capital expenditures were $75.1 million and compared to capital expenditures of $51.7 million in 2020.

Lastly, depreciation and amortization for the fourth quarter was $24 million compared to $26.3 million for the fourth quarter of '20 and calendar year 2021 depreciation and amortization was $99.1 million compared to D&A for 2020 of $104.7 million.

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

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

Thank you, Kevin. Earlier this month, Gentex participated in-person at the 2022 Consumer Electronics Show. It was great to be back at the show and be able to demonstrate our product-driven strategies with some of our new products and technologies. This was our largest presence at CES yet, and we displayed new products and concepts from all of our various technology areas. But for the call today, I'm going to focus on 3 primary areas of our booth: The driver monitoring demonstrator, the Cadillac Escalade and the innovation lab. The first item I'll go over is the driver monitoring demonstrator. This incredible tool was developed by the Gentex team in order to demonstrate the power and capability of our driver monitoring solutions, which are based on the Guardian acquisition. In the demonstrator, we were able to show 2 different camera implementations. One was a driver-only focused camera that was located behind the mirror glass. The other solution was a cabin-based camera system that was mounted above the mirror in the overhead console area. In both of these camera implementations, we were able to demonstrate the operation of our AI-based algorithms used to determine the state or condition of the driver, their overall attentiveness, direction of eye gaze, head location, and the readiness to take over control of the vehicle. The systems were also able to identify if the person was holding objects like a phone and how many people were seated. In addition to these features, we were able to show how a depth map can be created by using structured light. This depth capability allows for the expansion of features and provides more accurate information in regards to where things are physically located in the vehicle, their distance from the sensing system and provides estimates on mass and other necessary information.

The next item I'll discuss is the Cadillac Escalade. The Cadillac Escalade was 1 of 3 vehicles we had at the show and was positioned at the front of our booth. The Escalade contained multiple new features and technologies being demonstrated and showcase some of the great vehicle integration work our teams have been doing with our latest product innovations. As you approach the vehicle, you would see displays at the C-Pillar of the vehicle. These displays demonstrated how technology could be used to help communicate information about the vehicle status to a consumer approaching. Upon entering the vehicle, CES visitors were greeted by a new concept of our dimmable sunroof technology, and a brand-new product concept that turns a traditional flip-down sun visor into a dimmable device. This was the first time we have shown in public our concept around a dimmable visor and the initial feedback was even better than we anticipated. People like the idea of a visor that can be controlled to clear or darken to different levels depending on the glare they're trying to block. This dimmable sunroof concept was new and unique because it was designed into 4 independently dimmable areas so that passengers in each seat could personally select the level of light blocking to their preference. Our dimmable technology features best-in-class dynamic range, which is the ability to choose anywhere from fully clear to fully dark, and the Escalade provided the perfect demonstration of these advantages of our technology.

The user interface for these dimming devices was seamlessly integrated into the vehicle center stack display. This helped people to envision what a true integration could look like. The final feature I'll talk about today on the Escalade was our demonstration of a sensor system that could detect the heartbeat or breathing of a baby left in rearward facing child seat. This technology was part of the Guardian Optical Technologies acquisition we completed in 2021 and was also included in the driver monitoring demonstrator that I discussed earlier.

This technology demonstration clearly showed how our system could be implemented in a vehicle and use micro vibrations to detect children left in a car even when a camera-based system cannot see them directly. The final area to discuss was our innovation lab. That was contained in a private area inside our booth.

This innovation area was a great location for us to demonstrate products for the medical market as well as our sensing systems that can be utilized by many different markets. The sensing system demonstrated in the Innovation Lab was the Vaporsens technology. Vaporsens was an acquisition of Gentex completed in the spring of 2020, and we've been working hard to refine the core technology and adopt it to the multitude of use cases that exist for this technology.

We still have work to do to develop the product and the core nano sensing technology, but we're excited to see this tech evolve and come to the market in the coming years. For the medical area, we demonstrated 3 primary items: our RetiSpec partnership for early Alzheimer's detection, updated surgical and medical office smart lighting control system, which is based on our partnership with Mayo Clinic, and the development and evolution of the wearable vision system we are partnering with eSight to develop and manufacture. The eSight system is a unique opportunity for Gentex to work with a partner in developing the next generation of vision systems to help people with severe vision loss. Some of our core competencies like cameras, optics and displays are all key components to help make this system successful. Now for a quick update on launches for the fourth quarter of 2021. The fourth quarter of 2021 was another strong launch quarter for the company, with HomeLink and Full Display Mirror leading the way. We're excited to announce that during the quarter of '21, we began shipping Full Display Mirror on 5 new vehicle nameplates. These new nameplates are the INFINITI QX60, the Lexus LX, the Lexus NX, the Toyota Wildlander for China and the Toyota Tundra.

For 2021, Gentex announced we began shipping Full Display Mirror on 18 vehicle nameplates. And at the conclusion of '21, Gentex was shipping Full Display Mirror on 65 vehicle nameplates around the world. This growth in Full Display Mirror over the past few years demonstrates how both the OEMs and consumers value this technology. Despite all the challenges we face with shortages and shutdowns, the Gentex team has never been busier in launching products and in developing new technologies for the future. The culture of innovation is strong at Gentex, and we're excited to see all of the team's hard work to come to market in the coming years.

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

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

Thanks, Neil. The company's current forecast for light vehicle production for 2022 and 2023 is based on the mid-January 2022 IHS Markit forecast for light vehicle production in North America, Europe, Japan, Korea and China. Based on this information, light vehicle production in these markets is expected to increase approximately 8% over the 2021 calendar year volumes. For calendar year 2023, light vehicle production for these markets is forecasted to increase by another 10% over the 2022 estimated volumes.

Based on these light vehicle production forecasts, we are providing guidance estimates for calendar year 2022 for each of the following areas. Revenue for 2022 is expected to be between $1.87 billion and $2.02 billion. Gross margins for the year are expected to be between 35% and 36%. Operating expenses are currently forecasted to be approximately $230 million to $240 million. Our estimated annual tax rate, which assumes no change to the statutory rate is forecasted to be between 15% and 17%. Capital expenditures for 2022 are expected to be between $150 million and $175 million and depreciation and amortization is forecasted to be between $100 million and $110 million.

Additionally, based on the company's forecast for light vehicle production for calendar year 2023, the company currently expects calendar year 2023 revenue growth of approximately 15% to 20% above the 2022 revenue guidance. At the end of 2020, we talked about being cautiously optimistic about 2021 due to instability in our end markets, potential supply issues, international trade concerns and the potential long-term negative economic impacts from the pandemic. Unfortunately, many of these issues impacted the expected recovery of the global automotive industry and especially our primary markets in 2021. We come into 2022, anticipating that at least the first half of the year, we'll continue to see headwinds from supply and labor shortages that we believe will prevent light vehicle production from reaching the IHS estimates we discussed. We also anticipate that these headwinds will continue to cause some margin compression for 2022 due to higher material, transportation and labor costs. Despite these challenges, we remain optimistic that 2022 will provide a more predictable operating environment where we can begin to focus on cost containment and hope that the tailwinds created by improved light vehicle production levels over the next few years, will combine with our improved product portfolio to create record sales levels for the company.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question come from the line of Luke Junk from Baird.

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

First question I had is Steve, wondering if you could expand on what's informing your view that IHS is too aggressive in the first half of the year. What are you hearing from customers in terms of build schedules? Or maybe more importantly, what are you seeing right now in terms of production calls relative to what -- clearly, there was a lot of variability in the second half of 2021.

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

Yes. So I think our opinion on production is really driven by what we saw in the second half of the year. We think that instability, we know that a lot of the supply base is struggling, not only with materials, but also with labor, availability of labor. And so we think there's going to be a lot of unannounced OEM issues over the next couple of months that are going to drive production to not quite hit what OEMs would like it to be. And so we think the first half is going to be a lot more choppy than the back half of the year.

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

Okay. And then a follow-up question on gross margins. So in your prepared remarks, you know your belief that you will be able to offset, you think, some of the impacts to gross margin as we move through the year. Thinking about this from a modeling standpoint. In the very near term, should we expect gross margin to client sequentially. Obviously, I know first quarter is usually a little weaker seasonally. And then as we move through the year, I don't know if you could put a finer point on where you think we might be able to exit the year relative to the full year range that you've provided.

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

Yes. I don't think it will decline too much from Q4 into Q1. There's usually a little bit of APR, obviously, headwinds created on January 1. So that definitely may impact it slightly in Q1 and Q2. But really, what were the reason why we think the second half will be better as revenue should grow throughout the year. And based on our estimate and understanding that we think IHS is going to be a little overstated in the first half, we would think sales levels in general half will be a little lower than the second half of the year. And so that incremental revenue that we're expecting to see in the second half should help stabilize the margin profile and obviously create some of the efficiencies that we need on the manufacturing side.

Operator

Our next question will come from the line of David Kelley from Jefferies.

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

Maybe starting with the supply shortages and the under-shipments in the quarter you noted -- just hoping you could provide a bit more color on the drivers of that impact? Was it broad-based? Was it isolated to a subset of your supply chain? And then as we think about the cadence throughout the quarter, did the procurement visibility deteriorates by quarter end? Just trying to get a sense of what you're seeing in to 2022 here.

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

Yes. So I mean the vast majority of the revenue shortfall came from OEM changes in terms of their lower levels of production, especially in our primary markets. So if you look at our highest dollar content markets being North America and the European market, those were very significantly impacted on a year-over-year basis by production declines. Beyond that, the stuff that impacted us directly was to say, if we're looking at $90 million to $100 million revenue difference versus what we were expecting, 80% of that came from the OEM side, about 20% of it came from supply issues.

Inside for Gentex, when we said -- we've had a lot of problems over the last year with supply issues. We're historically, we -- over the last year, at least been able to fight through almost all of those and figure out solutions really, we're down to a handful of suppliers that are impacting us on the electronic side right now. The problem with that is, we don't see that ending any time in the next 6-months or so. So Neil's team has been working very, very hard on trying to make sure that there is availability of components and that we -- if there are different components that we can use to redo those designs to be able to incorporate the more available components. But that's been a non-stop treadmill really for about 18-months. And so we continue to look at areas that we think are concerned and then try to make sure we de-risk the business by finding alternatives.

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

Okay. That's helpful. And maybe a quick follow-up on that last point. How are you thinking about some of the electronics cost inflation into this year and understanding that your time line of negotiations with customers and potential pass-throughs are still around the corner here. But we've heard about semi cost inflation, pricing pass-throughs kind of further down the supply chain. So just curious how you're thinking about impact on -- or what's maybe baked into the guidance here?

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

Yes. So if you look at our guidance, I mean, on a year-over-year basis, from a material cost perspective, we're looking at about a 250 to 300 basis point headwind because of the cost increases we've experienced kind of starting in the fourth quarter, but then really taking in earnest in full year 2022. And then on the revenue side, we kind of have baked in headwinds as well of about 100, 150 basis points. That's kind of what really bridges you from what a normal margin would be to what we're seeing in '22. And as we've talked before, like conversations with OEMs are just now starting to happen. We expect some of those to elongate throughout the year because it's a different conversation than we've had historically about reduction. So we expect that, that headwind is going to last this year and hopefully, we'll have some positive results, but it's going to be OEM-by-OEM.

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

Okay. That's super helpful. And maybe last one, if I can squeeze it in, and then happy to pass it along. Any impact from labor shortages in the quarter? Or do you expect that to be more of a 2022 event? And just any color on labor or wage inflation would be helpful as well.

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

Yes. No, there's for sure wage inflation that's definitely impacting gross margin profile and operating margins as well. One of the things we're struggling with right now is overall availability of labor. And what that creates is obviously the inefficiencies we talked about in the conference call comments. Really what happens is because you're -- and it's driven by labor -- when I say labor shortages, that's really driven by 2 factors. One is fewer people participating in the workforce right now; and then number 2 is the amount of people out due to contact tracing or COVID-positive testing. So right now, the stability inside and the ability to plan is very difficult because of the quarantine period, associated with people who are contact traced or test positive. And so that's been the real difficulty right now as you're averaging upwards of 10% more of the general workforce that aren't available on a daily basis than what we're normally used to. And so that's been the most difficult part of it. In our size, you're talking hundreds of people that aren't available every day, the way you would like them to be or that you would plan around.

Operator

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

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

Just curious your thoughts. I mean you have exposure to all the different auto OEMs, obviously. Do you think that we've kind of passed through the trough here when you look at the second half of '21. And just thinking about the revenue cadence, is that expected to kind of build as we move throughout the year? Or is it going to be a little bit more disproportionately second half weighted whenever things start to ease up as you kind of mentioned in your commentary.

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

No, I think your statement that it will probably build throughout the year is kind of what we're expecting right now. If we look at customer call-offs in Q1, it looks like it's a step up over Q4 in terms of revenue. We're just a little -- we're a little more pessimistic about the industry's ability to handle that type of increase in overall volumes in a short period of time. The underlying issues that exist for the supply base and for OEMs, quite frankly, doesn't change on January 1. So we think it's going to take a little longer for the industry to get back to those higher levels of production. Yes, so second part of that, too, Josh, and I'm -- okay. Did I answer your question, Josh, I thought you had a second part of that question.

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

No, I think you got it of it. And then just because you mentioned it earlier, I mean, some supply constraints for the first time hitting FDM, but I mean the company has obviously had a ton of success when you look at all the nameplates that you've been adding. Could you highlight a little bit about what's the pipeline look like for '22 and '23 in terms of being able to add significant new nameplates for that offering? And any -- if you can provide a little bit of color on the expectations as far as like unit growth that you're expecting for '22 in that area given the high margin contribution that it has.

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

Yes. Well, Neil will touch on 2022. I'll kind of hit 2021 retrospectively. We were -- if you look at those final volumes for FDM this year, they were significantly lower than what we were expecting, and that was really driven by both the industry and the OEM side but also on our inability to get the components we needed to meet demand. So I would guess that we were 150,000, 200,000 units short of FDM this year of what we were -- what we believe demand was coming into the year. So we don't see that overall demand changing as we go forward into 2022 and 2023. So we think we're going to go back to that growth rate. Assuming we can get the components we need. We know the OEM interest and consumer interest is there. So we think we're going to get back to that faster growth rate on FDM even though 2021 was definitely impacted by component shortages. Neil, do you want to...

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

Yes. And for 2022, we're -- there's a lot of variables like Steve said, on volumes, but also in getting components and then customers if they continue to stay with their build data vehicles. But when looking at the year, we would see between -- probably between 10 and 15 new nameplates launch in '22. And there's I think we announced it at the last quarter, we have additional OEMs. I think we're up to 14 now that we've talked about that have awarded us business. We said that the numbers of 12; 13 and 14 would be in the next 2.5 years. I anticipate one of those will for sure launch this year, potentially 2 of those. So a lot of that is going to be depend on timing in the last half of the year, but we expect a couple of new customers to be publicly announced and then somewhere between 10 and 15 new nameplates.

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

And then last question for me that I'll pass to (inaudible) . You've been right to kind of fade the IHS numbers, right, and be a little bit more conservative. But I'm curious about what you're seeing that gives you some more confidence that the second half is really going to be kind of a key inflection point. Is there specific supply is coming online from some of the chip manufacturers? Or what are you hearing when have you talked to OEMs that gives you that confidence that we're going to see this inflection in the second half of this year.

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

Yes. We definitely have some additional capacity from -- especially on the electronics side that we believe will start to positively impact the supply side in the second half. That's why early last year, we were talking about the fact that we thought this was a full '21 and probably early '22 problem. And we still kind of hold to that timing. It's not going to fix all the issues. I think the thing that gives us a little more confidence, especially on our side, is that there are different components that are available that aren't as constrained. And so it's really about us moving into those new components, getting those full redesigns done and then broadening our supply base to make sure we can meet the customer demand side. We know we've definitely left some revenue on the table because we couldn't meet the demand of the customers. And obviously, the industry had its bigger challenges. We definitely have seen the ability at the end of Q4 for the industry to pick up the pace was pretty noticeable. I just don't think it's quite as aggressive as what I think for the first half.

Operator

Our next question will come from the line of David Whiston from Morningstar.

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

First question is on the recently signed infrastructure bill in the U.S. I've read that, that requires headlights at very similar to your DFL tech to be approved in 2 years. I was just curious what kind of potential windfall for Gentex could DFL be in the U.S. because of this legislation?

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

Yes. I think in regards to where our product has been going over the last few years with the standalone SmartBeam product, it's gradually been getting replaced as we've talked about, I think, for a couple of years now. So it is exciting that, that technology has finally come to the market since it's been available in Europe for multiple years to see it actually come here is great, but I don't see that it's going to have a great impact on us at this point.

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

Yes. Unfortunately, that's about 10 years too late.

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

That's too bad. And then on the new cabin monitoring tech you showed at CES, I was just curious across your customer base, someone, for example, like GM would they perhaps not be very interested in this tech because they already have some monitoring technology as part of their Super Cruise package?

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

Yes. So I think what's interesting about the tech and what we were showing is what they have in Super Cruise is similar on the base system that Neil described in his tech conversation. But what we showed on the advanced side is very different than what anyone is doing right now. And so even though there is always some resistance when you have an embedded product currently, the upside is all OEMs are looking for what the future in this area can look like. And we believe we showed something very compelling, both from a geography standpoint, which is different than what GM is executing in Super Cruise but also on the advanced features that we can offer by do full cabin monitoring, not just driver monitoring.

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

Okay. And on chips, I mean, we actually, in the press see some article from time to time about how there's actually going to be a big supply glut in a few years because everyone's adding capacity I guess my question to you is, is that really a bad thing for autos? It doesn't sound bad to me, but I was curious on your reaction.

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

No. In fact -- I mean, honestly, what we're -- the reason why the material cost increases that everyone is seeing is because of the shortage. So there's a new watermark being created by the supply side on what the values of electronic components are once you're over-capacitized or once there's available capacity, that's when the balance of power starts to shift into the buyers of those components versus what we're seeing right now. So I agree with you completely. I mean, it gives you more design flexibility and certainly the ability to plan better. More importantly, it does start to change the overall economics of the value of a component.

Operator

Our next question will come from the line of John Murphy from Bank of America.

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

Just a first question on the CapEx outlook. It's more than double year-over-year versus 2021. I'm just curious what's going on there.

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

Yes. Well, first, 2021 ended about $25 million less than what our plan was. And really, it's kind of crazy, but it was also about availability of even equipment. We just -- we placed orders, honestly couldn't take delivery of some of the CapEx that we had planned for this year just due to shortages. So part of that is just $25 million or so moving from 2021 into 2022. And the other thing I think it's important to look at is the last 3 years, given the issues we've really been very careful on our CapEx spend. And so historically, if you go back over, say, a 10-year period, you would say we averaged around $100 million a year in CapEx on a much smaller business back then. We've been very focused on being disciplined over the last few years. But now with the growth rates into 2022 and into 2023, we have some capacity issues that we want to address through some buildings. But then also there's levels of automation that will help with the efficiency and obviously, some of the labor challenges and then, more importantly, just building that capacity. And then obviously, with some of the new products and the new product portfolio, those require CapEx to get those ready for operations as well.

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

So how should we think about sort of run rate CapEx after sort of this catch-up in 2022? I mean you're talking about a 125...

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

Yes. I would say -- No, we're probably more like after '22. If you look at '23 and beyond, we'll probably be more in the $120 million to $130 million range.

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

Got it. Okay. Super helpful. The next, just on the IHS schedules you sort of being a dead horse here. But I mean, when we look at the light vehicle pressure schedules, the 17% increase in North America and 18% in Europe than expected. Is that where you see the most risk? Just trying to, (inaudible) vague increases.

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

Exactly right. Yes, exactly right. That's why when we look at those, especially towards those large markets, they haven't supported those levels of production in a long time. And so we think there's going to be a lot of challenges trying to get back to that level in a short period.

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

Would you govern those really as something sort of closer to 10% increases. I mean where are you haircutting those 2? It seems like that like supporting a 10%-plus increase in the chip industry right now is not in the cards. So I mean what are you kind of haircutting that to in your thought process?

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

Yes, if you look at like the overall -- I'll kind of talk about our primary markets and the overall IHS data being around 8% to 9% growth rate for 2022. We think that's more like 5% to 6%.

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

With the bulk coming out of North America and Europe?

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

Most of it coming out of North America and Europe. A little bit Japan, Korea.

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

Okay. Got it. Driver monitoring systems, cabin monitoring systems, there's a lot of players out there. Are you sit in a unique position and where you are in the in the vehicle, which is a good vantage point. Just curious how many competitors are there? And I mean sort of what's the unique position that you think you have. I mean, in the mirror, you're in a very, very unique position with real proprietary technology that's protected. I mean when you get into this new pool, I mean, is there just a much wider pool of competition? How do you think about that for that part of the business going forward?

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

No, that's a great question. I mean 1 of the things when we decided to make the Guardian acquisition and then look at what our competitive advantage would be in the space, -- we looked at the availability, the base version of a system that's just a camera anywhere in the car looking at only the driver, there are going to be a lot of players in that space. That's not really where we wanted to compete, where we want to compete is in the higher-end system, both from a geography standpoint, to your point of concealing the camera and the emitters -- IR emitters in a mirror location or in an overhead but then also looking at the advanced feature side. So what Neil was walking through on the advancements, the ability to see -- look at a rearward facing car seat and pick up micro vibrations is really the secret sauce of the system of what Guardian was working on. So it's literally doing structured light to look at it. It's picking up very, very small micro vibrations in and around the cabin of the vehicle. And with that comes the ability to do a lot of feature sets that just a vision system alone would not be able to do. And so we're going to compete not only from our geography and location and ability to conceal cameras and emitters, but also with a higher-end feature set.

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

Got it. And then just lastly, on the raw mat discussions. I mean, obviously, these are -- there's a little bit opaque on hedging pass-throughs, all this kind of stuff that impact your sharing with the automaker on the raw mat hikes and hopefully, at some point, normalization coming back down. But I mean, has anything changed in these discussions? I mean my understanding is that prior -- I mean, I've done this for a long time, prior to '08 and '09 the bulk of the raw mats were sort of at risk more on the supplier side, on your side, '08 '09, the your automaker switch to take you over a bit more. And now it seems like it's switching, they're pushing back a little bit because they're so -- I mean there's so much going on with AVs and EVs. They need help on both the CapEx or the capital and the cost side. So it just seems like they're going to push back a little bit more on this raw mat increase. I'm just curious if that's changing or if it's just more of the same in these discussions.

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

No, it's definitely -- I would say it's definitely changing. I mean we're -- we've engaged just since the last call, we started to engage with OEMs on this very discussion. And honestly, in 20 years at Gentex, I've rarely had this type of a conversation. And so it's definitely new waters in a lot of ways for us as a company. But OEMs are beginning to state their positions on what are they going to do with the supply base. Obviously, in terms of Tier 1 suppliers, there's a lot of companies that are going to struggle to eat these type of raw material increases and labor increase -- labor and cost increases without support from an OEM. And so it's going to be very interesting to see which OEMs are supportive to try to help the supply base and which push back harder in a constrained environment, it's going to become interesting. Those OEMs who work with the suppliers better are probably going to be in a position to get more access to inventory into components. So I think every OEM is going to make a decision on what their position is, and we're beginning to have those discussions about the fact that we can't eat all of these cost increases alone without help from an OEM.

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

Just 1 follow-up on that. I mean, have you ever envisioned a contract that would be set up or what ultimately gets passed through to the end consumer. I mean, the automakers are at that point where theoretically, they can raise prices to potentially offset this, but you're kind of stuck in the sandwich where you're not -- you don't have that flexibility. I mean is there any kind of discussion on indexing to ultimate sell-through pricing to the consumer. I mean, that's where -- I mean that would be sort of the holy grail of trying to get up the food chain where it gets passed on to the consumer, but that's complicated. But any discussions around that?

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

I wouldn't say discussions yet. There's been a ton of speculation and ideas through now. And obviously, as a supplier, there's a lot of discussions that we have with OEMs about, hey, we're willing to get creative with you to try to solve this problem. So I mean, there's been -- I wouldn't call it any tangible conversation around an idea like that. Right now, everyone is kind of in the idea generation phase where you're trying to find a way that doesn't become combative, but you're trying to find a way that it can work for both us and an OEM to make sure that we're getting there. It is interesting OEMs. I feel like through this last 18-months have gotten better with the consumer saying, hey, there's a little bit more pricing power there than probably OEMs even believed in the past, and especially with the fact that you can't build as many vehicles right now, so you got to try to maximize profitability on a per vehicle basis. And OEMs have seemingly done a really good job of changing their mindset as it relates to what is the price of a vehicle and how do they maximize that value from a consumer.

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

Let's just hope that sticks with them.

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

Exactly.

Operator

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

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

First, I wanted to ask on the sunroof. You spoke about it as part of your comments about the CES trade show. Could you go into more depth and when you could see that being used to a -- in the market for production vehicles.

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

Sure. Absolutely. So yes, the evolution of the product has happened over the last 3 years through 3 or 4 years now through CES as we've demonstrated different levels of dimming devices and we've grown that into sunroofs from the aerospace window side. From a market and activity, there's still a lot of work to do from a vehicle side, integration, working with customers. I would say that within the next maybe 3 to 4 years is when you would anticipate seeing that from us in the marketplace.

It's a great evolution. I think the thing that's really coming along well with the technology is the consumer side, seeing the need and the want for it. The ability to choose individual control over the different seating locations for the consumer to have it be clear or dark or different levels in between the 2 states, is extremely advantageous and really positive results.

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

That's helpful. And then in terms of cash flow for this year, could you talk about use of cash and how you think about maybe balancing that I mean you spoke already on your CapEx plans. But in terms of using free cash flow, how do you think about things like buybacks versus M&A? And are there more tuck-ins that you (inaudible) acquisitions you may be considering their percent Guardian -- augmenting the product portfolio, so interested in what the outlook for potential acquisitions may be.

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

Yes. So if you look at the playbook we've been executing in the last couple of years, to your point, we've been enhancing our R&D portfolio with the small acquisitions that we put in place. We've got teams working on product development for commercialization. But again, that doesn't detract a lot from a free cash flow perspective. So we plan to stick right to the plan as we did this year. We're spending $325 million on CapEx. Cash flow should -- as sales come up, the operating cash flow doesn't change, the metric doesn't change. CapEx is up a little bit, as Steve already alluded to, but that leaves a significant amount for kind of executing share repurchases on a systematic basis throughout the year. And then if there is an opportunity that presents itself from either a bolt-on or a small technology acquisition, we continue to look, and our teams are very focused on that and developed over the last few years. So the same offensive plays as we ran in 2021 will apply to '22.

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

So just to clarify quickly, when Kevin said the $300 million to $325 million was talking about repurchases, not CapEx.

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

Yes, not CapEx, sorry.

Operator

(Operator Instructions) Our question will come from the line of Ryan Brinkman from JPMorgan.

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

In the release, it mentioned full display and Integrated Toll Module has been more impacted by the chip shortage than your lower feature, I guess, lower ASP products. I'm curious to the degree to which this mix impact, maybe the less high feature products may be factoring into your margin guide for '22. I get that the overall level of customer production due to the chip shortage will result in less fixed cost leverage. So arguably, the chip shortages impacting your margin and more waste than one. But just specifically with regard to the mix of your own products. Is that a significant factor in the margin guide? And when do you think you may no longer be supply limited on some of these higher future products?

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

Well, as Steve alluded to, right, the first half of the year with FDM and ITM constraints kind of rolled off Q4 that we see that in the first half of the year, hopefully freeing up in the back half. What we're seeing is great growth in other products like we did in Q4 was outside mirror growth throughout '21 into '22. But when you put all that into the mix calculation, we're seeing about a 50 to 100 basis point headwind from the mix side, if you look at the overall product mix and shipping base mirrors versus the advanced feature stuff.

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

Okay. That's very helpful. And then you mentioned, I think, in response to 1 of the previous questions that the conversations with customers had already begun with regard to the recovery of these non-commodity supply chain costs that we've talked about in the third quarter. Based upon those early discussions, do you have any thoughts on what percentage of that cost increase that you might potentially be able to recover in those discussions?

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

Yes. It's tough to put it in that regard already. Obviously, with some of these, as you can imagine, you're having these conversations early with some of the more difficult relationships. So unfortunately, it's probably not a good indicator of how all of them will go because you're starting obviously with the ones that are most challenging. It's tough to put it into a percentage of what percent of increase are you seeing because like we mentioned before, we're going to -- we're going to take a long-term approach with this. And so we're not going to come in saying, this has to be done and it has to be done this year and this is what it has to be. It's more about, hey, what does the book of business look like? What is the new opportunities for growth look like? -- what are our previous commitments and how do we find something that can work for an OEM and handle this over a multiyear period. And so it's difficult to put into a percentage right now. What I would say is that probably half of our conversations aren't overly combative. OEMs are interested in collecting the data and understanding what we're seeing and having a pretty honest. It's really an education process at the beginning of us explaining and helping them understand what we're seeing. And then I think the next 2 to 3 months are going to be key in trying to reach some agreement with them on how do we go about this together.

Operator

I'm not showing any further questions in the queue. I'll turn it back over to Josh for any closing remarks.

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

Great. Thank you, everyone, for your time and the questions today. We look forward to meeting with you in 2022, and hope you have a great weekend. This concludes our call.

Operator

And this concludes today's conference call. Thank you for participating. You may now disconnect. Everyone, have a great day.
