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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to Gentex' Fourth Quarter and Year-End 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 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 and Year-End 2023 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, CTO; and Kevin Nash, Vice President of Finance and CFO.

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This conference call contains forward-looking information within the meaning of the Gentex safe harbor statement included in the Gentex Reports Fourth Quarter and Year-End 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. Steve?

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

Thank you, Josh. For the fourth quarter of 2023, the company reported net sales of \$589.1 million, an increase of 19% compared to net sales of \$493.6 million for the fourth quarter of last year. The fourth quarter of 2023 revenue included one-time cost recoveries of approximately \$5 million. Light vehicle production increased by 6% quarter-over-quarter in the company's primary markets of North America, Europe, Japan and Korea, which equates to a 13% revenue outperformance versus the company's underlying markets.

The gross margin in the fourth quarter of 2023 was 34.5% compared with a gross margin of 31.2% in the fourth quarter of last year. The increase in gross margin in the fourth quarter of 2023 was positively impacted by recurring price increases to customers and one-time cost recoveries, which together positively impacted the gross margins by approximately 100 basis points on a quarter-over-quarter basis.

The additional improvements in gross margin came from the higher sales levels, improved leverage on overhead expenses, purchasing cost reductions, lower inbound freight expenses and improvements in overtime-related costs. The fourth quarter of 2023 produced significant year-over-year gross margin improvements as well as a sequential improvement in gross margin compared to the third quarter of this year.

Our team has done an excellent job of working with our customers to execute both temporary and permanent price increases to help offset the inflationary cost environment that has negatively impacted Gentex over the last 2 years. I'm very pleased with the progress we have made in our gross margin recovery plan during 2023.

And as we head into 2024, the next phase of our gross margin recovery plan will focus on bill of material reductions, throughput improvements and overtime and scrap cost reductions. The improvements we have made in 2023, combined with our targeted improvements for 2024, provide the road map of how we plan to achieve our target of a 35% to 36% gross margin by the end of the year.

Operating expenses during the fourth quarter of 2023 were up 18% to \$70.6 million compared to operating expenses of \$59.7 million in the fourth quarter of 2022. Operating expenses increased quarter-over-quarter, primarily due to staffing and engineering-related professional fees.

As we ramp up our development and launch capabilities, our planned R&D expenses are trending higher but remain in line with our expectations and continue to increase in line with our overall sales growth rates. We are focused on adding technical bandwidth across many different disciplines to help execute the significantly higher number of launches needed to accomplish our recent and forecasted growth.

While launch activity has been driving an increase in R&D, we also continue to invest heavily in research activity focused on new products and technical capabilities while also ensuring that the technical team is in place to help drive product redesign that will optimize the cost structure of existing bills of material. We expect our R&D levels to be elevated throughout 2024 as the pace of innovation and launch of new products remains at the highest rate in company history.

Income from operations for the fourth quarter of 2023 was \$132.8 million compared to income from operations of \$94.1 million for the fourth quarter of last year. During the fourth quarter of 2023, the company had an effective tax rate of 13.9%, which was driven by benefits from the foreign-derived intangible income deduction, discrete benefits from stock-based compensation as well as provision-to-return adjustments.

In the fourth quarter of 2023, net income was \$116.9 million compared to net income \$86.2 million in the fourth quarter of last year. Earnings per diluted share in the fourth quarter of 2023 were \$0.50 compared with earnings per diluted share of \$0.37 in the fourth quarter of last year.

For calendar year 2023, the company's net sales were \$2.3 billion, an increase of 20% compared to net sales of \$1.92 billion in calendar year 2022, representing the highest annual sales in company history. Light vehicle production in 2023 increased by 12% compared to last year in the company's primary markets. The company's revenue outperformance in 2023 versus the underlying market was driven by growth in FDM and exterior auto-dimming mirror unit shipments as well as continued penetration of base interior auto-dimming mirrors.

For calendar year 2023, the gross margin was 33.2% compared to a gross margin of 31.8% for calendar year 2022. Gross margin improved for the year by 140 basis points primarily due to price increases and cost recoveries, lower freight costs, product mix and improved overhead leverage created by the growth in revenue.

For calendar year 2023, operating expenses increased 11% to \$266.9 million compared to operating expenses of \$239.8 million last year. For calendar year 2023, the company's effective tax rate was 15.2% compared to an effective tax rate of 13.8% for calendar year 2022. The increase in the tax rate in 2023 was primarily driven by a reduced benefit from the foreign-derived intangible income deduction compared to last year.

Net income for calendar year 2023 was \$428.4 million, up 34% compared to net income of \$318.8 million last year. Earnings per diluted share for calendar year 2023 were \$1.84 compared to earnings per diluted share of \$1.36 last year.

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

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

Thanks, Steve. Automotive net sales during the fourth quarter of '23 were \$578.7 million compared to \$482 million in the fourth quarter of 2022. For calendar year '23, automotive net sales were \$2.25 billion, which represents a 20% increase over '22. The increase in automotive net sales was driven primarily by a 45% increase in FDM unit shipments as well as a 21% year-over-year increase in exterior auto-dimming mirror unit shipments.

Other net sales in the fourth quarter, which includes dimmable aircraft windows and fire protection products, were \$10.5 million, a decrease of 2% compared to other net sales of \$10.7 million in the fourth quarter of '22. Fire protection sales decreased by 44% and dimmable aircraft window increased by 362% for the fourth quarter of '23 when compared to the fourth quarter of '22. Other net sales for calendar year '23 were \$44.6 million compared with other net sales of \$44.2 million in calendar year '22. Fire protection sales in '23 were down 32% year-over-year while dimmable aircraft window sales increased by 211% in '23 compared to last year.

Share repurchases. The company repurchased 2.2 million shares of its common stock during the fourth quarter at an average price of \$30.76 per share. For the year ended December 31 of '23, the company repurchased 4.93 million shares of its common stock at an average price of \$29.61 per share for a total of \$144.7 million.

As of December 31 of '23, the company has 15.9 million shares remaining available for repurchase pursuant to its previously announced share repurchase plan. The company intends to continue to repurchase additional shares of its common stock in the future in support of the previously disclosed capital allocation strategy. But share repurchases may vary from time-to-time and will take into account macroeconomic issues, market trends and other factors the company deems appropriate.

Shifting over to the balance sheet. The balance sheet comparisons mentioned today are as of December 31 of '23 as compared to December 31 of '22. Cash and cash equivalents were \$226.4 million compared to \$214.8 million. Short-term and long-term investments combined were \$313.4 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 \$321.8 million, up from \$276.5 million due to the increase in sales levels. Inventories were \$402.4 million, down from \$404.4 million, and accounts payable increased to \$184.4 million, up from \$151.7 million.

Let's take a look at preliminary cash flow items for the quarter and year. Fourth quarter 2023 cash flow from operations was \$169.6 million, which was an increase from \$101.8 million in the fourth quarter of '22. The increase was due to increases in net income, shifts in working capital and deferred taxes. Year-to-date, cash flow from operations was \$537.2 million, an increase from \$338.2 million in 2022 due to increased net income and changes in working capital.

CapEx for the fourth quarter was \$62.3 million compared with \$37.9 million for the fourth quarter of last year. And calendar year 2023 capital expenditures were \$183.7 million compared with \$146.4 million last year. And depreciation and amortization for the fourth quarter was \$22.3 million compared with \$23.3 million for the fourth quarter of last year. And calendar year '23 depreciation and amortization was \$93.3 million compared with \$96.6 million last year.

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

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

Thank you, Kevin. Earlier in January, Gentex participated in the 2024 Consumer Electronics Show. CES is one of the many tools we use to showcase our current and potential future product portfolio to customers and consumers. Our booth was designed to help automakers envision a path toward the autonomous age with scalable products and features ready for implementation on today's vehicles.

This year, we had two different booths where we demonstrated Gentex technology. One of the booths, which was located in the North Hall, showcased our newly announced acquisition of eSight, the medical wearable for people with vision loss. This booth was set up to allow partners and consumers the ability to experience this great technology. And it showed Gentex' capability and experience in displays and cameras applied in a new market segment.

Our primary booth was in the West Hall and was focused on our automotive, aerospace and consumer-facing products and technologies. This booth contained multiple vehicles and simulators, which were designed to demonstrate new features and technologies to visitors, enabling them to experience the first-hand benefits of our products right on the show floor.

One of the unique demonstrators showcased a scalable yet holistic approach to driver and in-cabin monitoring. The driver monitoring system tracked the driver's head pose, eye gaze and other relevant movements to determine distraction, drowsiness, sudden sickness and readiness for the return of manual control in semiautonomous vehicles.

The system is easily expandable to include 2D or 3D cabin monitoring for detecting passengers, behaviors, objects and even presence of life. Our goal with this system is to provide solutions for today's vehicles and the transition to autonomous vehicle, which means engineering a comprehensive and scalable monitoring platform based on our competency in digital vision and sensor fusion techniques.

A second demonstrator was set up to demonstrate the value and use cases for thermal imaging using long-wave infrared technology. Gentex previously announced our partnership with ADASKY, whose focus is on thermal imaging. At CES, we showcased a simulator that we developed together that highlighted the value that thermal imaging can bring to both forward and rearward vision systems in a vehicle.

To demonstrate a forward-facing thermal imager, we showed how this information could be displayed in the center stack or any display in the dash of a vehicle to help a driver or passengers see under difficult conditions. For the rearward-facing thermal imager, we showcased how this information could be displayed in our Full Display Mirror in order to provide additional visibility benefits to the consumer in difficult driving conditions.

Additionally, we demonstrated how a thermal imager can be utilized as an additional sensor input into ADAS systems for really difficult driving situations such as heavy fog, low light, very bright light, snow and rain. Also displayed at CES were our large-area dimmable devices, including sunroofs that darken on-demand or with system intelligence, and sun visors that fold down like a traditional visor but include a clear, dimmable panel that can darken in on-demand or based on sunload sensors.

With the dimmable visor we showed previously, the consumer would not have a vanity mirror on the visor due to the surface being all glass. So for CES this year, we had added an additional feature. With a press of a button, the see-through glass surface became a reflective surface and the lighting above visor turned on, so the person could utilize the device like a traditional vanity mirror. This new technology feature was really well received by everyone that sat in the vehicle.

The last area of focus at CES was the launch of our new residential smoke detector product that we announced and displayed at the show. Gentex is celebrating our 50th anniversary this year. It's interesting to reflect on the fact that Gentex began as a smoke-detecting company. And we are now using all of our background in detecting smoke for commercial applications to create an all-new product line of residential detectors called PLACE.

PLACE has four different products that are designed for specific locations in the home. There's a product for the garage, the kitchen, the child's room and a general-use product. Each of these comes with some unique technology and capability to add value to the end consumer. For example,

the child's room product has a nightlight feature, a white noise generator, audio and camera that will allow parents to check up on the child remotely.

We're excited to launch this new product in 2024 and expect that this new product line will open many new opportunities as we expand into the consumer-facing market. Overall, CES 2024 was an excellent opportunity for us to demonstrate to our current customers, and hopefully some future ones as well, where our product strategy and development focus is heading over the next few years.

In terms of launches for the fourth quarter of 2023, there were 10 net new nameplate launches of our interior and exterior auto-dimming mirrors and electronic features. For calendar year 2023, we experienced our greatest net launch rate since 2015. And we continue to see a strong pipeline of launches through 2024.

Now for an update on Full Display Mirror. The fourth quarter of 2023 was another strong quarter for Full Display Mirror shipments. And we're excited to announce that for the calendar year 2023, we were able to exceed our unit shipment goal of 500,000 units over 2022 volume by shipping approximately 750,000 units more than 2022. This would bring our 2023 FDM unit shipments to approximately 2.44 million units. It's clear in looking at this growth that the product is being well received by our OEM customers and the end consumers.

2023 was a really strong year for Gentex products and technologies. The FDM growth was outstanding. We had an extremely heavy launch schedule. And late in the year, we had minimal component shortage issues to worry about. In 2024, while we continue to push the Gentex technology path that we showed at CES, we will also need to focus on the execution of our heavy launch backlog and the redesign work needed to achieve the cost-optimized designs necessary to recover from the increases we've seen over the past few 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 calendar year 2024 and 2025 are based on the S&P Global Mobility mid-January 2024 forecast for light vehicle production in North America, Europe, Japan, Korea and China. Light vehicle production in these markets is expected to decrease by 1% in 2024 compared to calendar year 2023. The forecasted vehicle production volumes for calendar years 2024 and 2025 from S&P Global Mobility are shown in our press release from today.

Based on this light vehicle production forecast, the company is providing full year guidance estimates for calendar year 2024 as follows. Revenue for 2024 is expected to be between \$2.45 billion and \$2.55 billion. Gross margins for the year should be between 34% and 35%. Operating expenses are expected to be between \$295 million and \$305 million. The estimated annual tax rate for the year is forecasted to be between 16% and 18%.

Capital expenditures for calendar year 2024 are expected to be between \$225 million and \$250 million. Depreciation and amortization is expected to be between \$95 million and \$105 million. Additionally, based on the mid-January 2024 S&P Global Mobility light vehicle production forecast as well as the company's estimates for aerospace, medical and fire protection products, the company currently expects calendar year 2025 revenue to be between \$2.65 billion and \$2.75 billion.

Calendar year 2023 turned out to be a remarkable year for the company and was the first time that Gentex has exceeded \$2 billion in annual revenue. It is important to note that the growth the company has achieved over the last few years has been driven by our new technologies and innovative product road maps. From 2018 through 2023, the company's revenue has grown by over 26% while light vehicle production in our primary markets of Europe, North America, Japan and Korea has shrunk by over 11% during the same period. We believe this revenue outperformance versus the underlying market is evidence that our product strategy is effective and is creating our targeted results.

Our revenue guidance for 2024 and 2025 shows that we remain confident in our ability to outperform the underlying market and revenue growth while we continue to focus on gross margin improvement. Gentex is poised to execute on our forecasted revenue growth while maintaining focus on cost control and gross margin improvement, which are necessary to accomplish the goal of achieving a gross margin profile of 35% to 36% by

the end of 2024. These factors we believe will result in record revenue and profitability that should create the foundation for increased shareholder returns over the next several years.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). And our first question is going to come from the line of Luke Junk with Baird.

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

First, hoping we could start on the top line, especially incremental FDM units. Just wondering what's the framework that you're looking at updated this year. Is 500,000-plus units still a good number to be looking at incrementally in 2024? And then just how do you build up to that in terms of mix of new launches you're expecting this year, take rates? Anything else we should be considering?

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

Luke, you're absolutely right. I think we're targeting right now for 2024, about 0.5 million unit increase in FDM volume shipments for this year. In terms of the mix of where that's coming from, listen, 80% of it is going to come from existing OEMs and existing platforms but increased take rates and kind of just expansion amongst the existing OEMs. Probably that last 15% or 20% is going to be new targets, new launches. Several of those will be with new OEMs as well.

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

Got it. And then switching gears to margins, just curious, Steve, what initial feedback you're getting from Tier 2 suppliers as you've engaged with them going this year in January relative to, one, just their positioning around potential cracks in semi pricing and what you might need to do from a redesign standpoint this year. And if you are seeing opportunity, just how opportunistic can you be realistically pushing on the Tier 2 base?

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

Yes. We're actually -- we're sitting really well right now. Our purchasing team has done an excellent job of preparing 2024 pricing with the supply base. A good majority of our suppliers have reached out and have collaborated with us on how to get those costs, maybe not back to pre-pandemic levels but definitely below where they were in 2023. So that should provide some of the margin tailwind we need in '24 to help throughout the year get us to our targeted margin profile by the end of 2024.

The redesigns really are going to be more of a factor at the exit velocity of '24 as we head into 2025. A lot of the work is going to take 6 to 9 months to get it -- the research, the actual designs redone and then a few months of validation. And so what we're optimistic about though is if we look at those core areas of being purchasing reductions in combination with operational efficiencies will help drive margin improvement in '24. And then the work we're doing on the engineering side will really help keep that margin stable, or if not, improve slightly in '25 and beyond.

Operator

And our next question comes from the line of James Picariello with BNP Paribas.

Thomas Jacob Scholl - *BNP Paribas Exane, Research Division - Research Analyst*

This is Jake on for James. Can you guys just give us some color on FDM margins and how long it's going to take them to get back to that run rate of 40% to 45%? I know they've been under pressure for the last few quarters to a year.

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

Yes. Well, I think they're running probably in the low 30s right now corporately in terms of what that margin profile looks like, so below corporate average, primarily driven by the cost increases that we've encountered over the last couple of years. Our goal with these redesign efforts are really to get them back in line with corporate average. So I wouldn't predict that they're going to go to 40% or anything. But somewhere in that 35%, 36% is kind of our long-term goal where we believe we can get that product over time.

Thomas Jacob Scholl - *BNP Paribas Exane, Research Division - Research Analyst*

Awesome. And then exterior mirror shipments in the quarter came in very strong. Can you talk about some of the drivers there? And how should we think about that in 2024?

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

Yes. If you look -- yes, thanks for pointing that out. Obviously, we're very pleased with the success in outside mirror growth over the last couple of years. Fourth quarter was no exception, very, very strong growth. A lot of that is coming just from expansion and take rate improvements. Obviously, the mix, the vehicle mix has been good in terms of the types of vehicles OEMs were building during some of the constraints has definitely been a tailwind for us.

Obviously, this type of volume creates some operational challenges in terms of getting capacity in place that quickly. Our team has done a remarkable job of keeping yields up, given the strong demand that's been put on the -- part of the organization. But as we look forward, a lot of our customers, including Tesla and others, have driven very high take rates. E-vehicles, and BEV in particular, have very much latched on to some of the higher-end technologies and features. And so those have been, from a competitive set, have been driving take rates at other OEMs higher as well.

Operator

And our next question is going to come from the line of Josh Nichols with B. Riley.

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

Great to see the record results for 2023. Now I was just curious, I know historically 1Q, there's been like a 200 to 300 bps typically of like margin compression for some cost concessions. Just looking at the guide, is that like something that the company expects will happen this year and then you kind of rebound from there and get back to that 35% to 36% level in the back half of this year?

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

Yes, we usually see a dip in Q1. I would say Q1 of this year probably won't be quite as significant from a compression standpoint. Just if you look at our existing agreements with OEMs, it's definitely come down from where it was, given all the cost pressures that the industry has seen over the last couple of years. That 2% to 3% isn't really what we're targeting this year for -- or expecting in terms of givebacks to OEMs. We think that will be less than that.

But as normal, we would expect Q1 to be probably the lightest margin quarter of the year. And then to your point, by Q4, we expect to be in that 35% to 36% range. And really, that's driven by a couple of factors as well. You have, a, the price-downs in Q1 that happened at OEMs, where also in Q1, you're still burning through inventory that was purchased based on '23 economics. And so the concessions from the supply base really won't start hitting until late Q1 or Q2.

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

Great. And then it was really encouraging and good to see all the company's cutting-edge technology at CES this year, whether it was the thermal imaging or dimmable glass or in-cabin monitoring and then the new direct-to-consumer offering. There's a number of things the company is working on here in terms of advanced technologies.

But I guess, if we're thinking about what could be the next or nearest-term positive catalysts in terms of monetization and revenue growth, like how would you handicap some of the newer offerings in terms of which one is going to drive more revenue over the next like 12 to 36 months?

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

Yes. See, in the shorter term, it's going to be driver monitoring. We're working on a couple of launches right now with some OEMs, where we have business awards. So those would be probably creating material revenue in the -- of that feature set that you saw at CES. That will be the one driving material revenue the soonest. Following after that, obviously, we still think in the next 3 to 5 years, it's going to be the large-area devices and from an overall dollar standpoint, still has one of the largest opportunities that we've seen as a company.

Probably in that same horizon obviously will be the visor project. We've only been showing that really for about a year now. So we've got a lot of work to do. But the interest at CES in that product, in particular, was very tangible. I mean, it's -- there's hardly anyone that you show that product to that doesn't understand the use case and why there could be some consumer value created.

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

Just as a follow-up, I know that Europe is moving towards mandating this type of stuff for in-cabin monitoring. Like any way to quantify the impacts or just some color on what you're seeing there in terms of the demand uptick?

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

Yes. I mean, our first -- and that's kind of what's happening. So the real regs that are driving it are in the European Union, where some type of an assist, an alert notification is required, especially as we start to move into semiautonomous vehicles. And so that's where the majority of the business development side has been taking place.

But there is a lot of interest even from existing domestic customers that are interested in this type of technology, interested in how we can integrate it, conceal the technology to make it not obvious and help just with the integration being center and high-mounted in a vehicle. There's some geography advantages to our location and the tech that we bring to the table. So we continue to see the kind of that trend, both a trend in regulation but then also a trend just in OEMs wanting and needing this type of a feature set.

Operator

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

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

A couple of questions. I mean, you exited last year at 34.5% on gross. You called out 100 basis points benefit for pricing actions and then something that seems a small impact, one-time cost recoveries. And I'm just curious, I mean, you're exiting close to that 35% to 36% gross margin target you're talking about by the end of this year. What are kind of the big headwinds that would kind of dampen that out? Because I mean, you're getting pretty (expletive) close to it already.

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

Yes, see, the single biggest one obviously will be there are some pricing concessions to OEMs that are happening at the beginning of the year. So that would be number one. Number two, one of the things that would hurt is, obviously, no one knows for sure what's going to happen with LVP. Right now, in our primary markets, it's targeted to be down 1%. We think that our current book of business will more than offset that reduction. But if sales didn't come in as high as we're expecting, obviously, that would create the other biggest headwind.

On the rest of the business, we feel like we've got most of the contracts in place on the supply side. So we don't view that as a huge risk factor as we head into this year. Honestly, product mix would be the next one. And so as interest rates, if they stay elevated, do -- what is the value of the vehicle that a consumer is going to purchase? And will it or will not contain our technology? And if so, how much of it, right? So our ASPs are largely driven by type and the trim level of vehicles that are purchased by consumers.

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

I mean, Steve, maybe just a follow-up to that. If I were to tell you that I think you should be modeling the business as plus 2% bare minimum for that global number, a plus 5% bare minimum for the North American production number and IHS is way too conservative, how big an impact would that have on sort of what you're communicating to us, but maybe even more importantly, how you're setting up the business?

I mean, could you handle something the way you're capacitized and your OpEx in staffing is set up? Because I mean, IHS is way too low. The reality is we're going to be up. But how significantly, I think, is more the question mark. I mean, the idea that we're going to be down in this year is just a little bit preposterous.

So if we were to think about -- and I'm not calling you out. I mean, I know you've got to run the business. But if you were to have that toggle of global production up at least 2%, North America up at least plus 5%, are you set up to handle it? And how big of an impact would that have the way you're communicating in this outlook?

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

John, I love your energy. I mean, it's been so many years since I've...

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

They're off, they're off this year.

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

Yes. I've had so many years of being hit with a board that I think I've lost optimism or something. No, I mean, if it were to happen -- and realistically, I think that's where OEMs are trying to get to as well to the numbers you just discussed, we would see at least point-for-point improvement in our guidance.

In other words, if North America was up 200 basis points instead of down 100, we would expect to see 200 to 300 at least improvement in our own business there because we do have -- obviously, we do have a lot of exposure to the North American OEMs with good content.

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

Okay. And then just lastly, do you see any inventory buffer in the channel? I mean, obviously, worldwide scared people quite a bit. I mean, are you seeing anything that you've built up in your inventories or maybe even forward-looking into your Tier 1 customers, Tier 1 supplier partners and then in the automakers? Or is that something you're just not seeing...

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

No. Well, quite the opposite. Given the growth we've experienced over the last 2 years and the lengthening of how long it's taken to get capital, if you notice our CapEx, we keep guiding higher than we're actually able to spend. And the last 2 years haven't been because we're cutting that back, it's just because the supply base on capital has pushed out so far that it's hard to get it in place. So the last 2 years, we've been actually under-capacitized for what the volumes have been.

And so our actually finished goods inventory is lower than we would like it to be. And so we're working 6/7 days at times just to keep up with demand. And so we would welcome like obviously not a slowdown but a chance for stable orders so that we could get caught up and get inventories back to where they were. So fortunately, we haven't -- from a financial side, fortunately, we haven't prebuilt or preshipped anything. So we don't see any glut in inventory either at our customers or definitely not internally.

Operator

And our next question is going to come from the line of Mark Delaney with Goldman Sachs.

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

You started -- I was hoping to follow up on the topic John was just bringing up around LVP for this year. And you started to cover a little bit around how you guys see the regions. You mentioned, I believe, that you think North America might be tracking a little bit stronger than what IHS is currently projecting based on what you're seeing from OEM schedules. Could you talk a little bit more on all the regions and globally and anything you may be seeing in OEM schedules that is either similar or different to what IHS is projecting?

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

Yes, I think -- and just to clarify quickly, we are really using just John's presupposition that it was going to be better. I wouldn't say that the company necessarily feels that it's understated. It is certainly -- at this point, prognosticating light vehicle production by region is something that I obviously -- we don't get paid for that forecast. So unless you want to buy it from me, I'd be happy to provide you one if you'd like me to tell you my own personal forecast.

But I look at it and say it's probably a fairly flattish production environment globally. Now the mix in between the regions, obviously, if you look at Japan, Korea, it's had a tough few years. Obviously, Europe has kind of oscillated back and forth really over the last 5. North America definitely would say there's definitely some demand there. The question is OEM mix and which OEMs are going to win in the marketplace. And quite frankly, you do have some other OEMs who are expanding into North America for sales here with their manufacturing. And that's European OEMs included.

And so I kind of look at the globe and say, listen, I would fully expect that the China market will probably cool some. And if that happens and the rest of it has picked up out of our primary markets being Europe, North America and Japan, Korea, that bodes really well for us, a, our revenue is better in those areas, the profitability tends to be a little better as well.

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

Got it. And then the second question was on OpEx. And understandably, the company is taking OpEx up this year to support all of the different growth initiatives that you have as well as the revenue growth that you're seeing in the business. Maybe help us think a little bit beyond 2024, with the investments you're putting into place this year, is that a pretty good base of investment level and OpEx beyond '24 may grow more slowly? Or would you anticipate continued increases in OpEx that may be a little bit higher than the typical underlying economic inflation to support some of the longer-term efforts?

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

Yes. No, I think if you look at this guidance we put in place for this year, I think somewhere in that range for the next couple of years will probably be where we're at. Like I wouldn't expect it to go above this \$225 million to \$250 million range in '25. If you look at that level -- and really the factor comes if '24 and '25 pan out the way we're talking about, we're going to be looking at being at capacity -- I'm sorry, Kevin, what did you say?

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

I think he was asking on OpEx.

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

Oh, OpEx, sorry. I thought you talked about CapEx still. Well, I'll finish CapEx and we'll get to OpEx. But if you look at the CapEx plan at these levels of revenue, we are going to be needing additional facilities, not just equipment. And then on the OpEx side, really this OpEx should, once we get through this year, if we hit these numbers -- and there's a lot of ifs in that statement because it's requiring us to find a lot of talent, and the talent is difficult to locate and acquire.

If we do get to these levels by the end of the year, I think the OpEx growth rate should roughly track in line with sales growth rates. It's what we try to target to. And there's a little bit of a leading indicator, obviously, of OpEx sometimes expands ahead of a sales growth splurge. But one of the things that we always try to focus on over a long period of time is trying to make sure that, that OpEx growth rate is roughly in line of sales growth rate, if not slightly below it, so you get a little bit of leverage through the bottom half of the income statement.

Operator

And our next question is going to come from the line of Ryan Brinkman with JPM.

Ryan Joseph Brinkman - JPMorgan Chase & Co, Research Division - Senior Equity Research Analyst

Can you help us a little bit more with the addressable market of the consumer retail fire safety protection and talk about your strength in the commercial fire protection market and how that might translate over into retail, what sort of the early discussions have been around like go-to-market strategy for retail and any partners that you might have brought onboard or expect to bring onboard and how big this business ultimately could be over what time frame?

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

Sure. So thanks for asking that question. It was a very exciting part of the CES show was showing the new PLACE product. We have our first customer already onboard and is ready for the product once we have the engineering work completed hopefully mid this year. And so that will be kind of

our SOP timing for that first customer. Beyond that, our next go-to-market philosophy is really focused on how do we get engaged with direct-to-builder.

One of the things we know is the DIY market is interesting. However, we believe that the maximum upside of this product will be focused on trying to get it installed at construction or remodel. We believe, a, we know it's a lot easier of an install at that point in time. And it's easier to convince a homeowner of the significant benefits without having to rewire or redo electrical work. And our product is designed to be able to upscale. So once you have a base unit, it's easy to upgrade that unit into one of the more advanced featured rooms that Neil referenced in his prepared comments. So that's kind of the current plan for go-to-market.

In terms of overall size estimates, it's a little early to kind of indicate that. Our targets, when we started developing this product, is we've got about a \$20 million, \$25 million book of business in the commercial side of fire protection currently. We believe that, that plus the new PLACE product, our goal is in the next 7- to 10-year period to have \$100 million-or-so book of business focused on residential fire protection.

Operator

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

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

You called out in the press release three main drivers to get to the gross margin target by the year-end of reducing bill of materials, throughput and overtime scrap cost reductions. I'm just curious, what's the rough breakout among those three buckets for the contribution?

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

Probably 70% of it is bill of material reductions with an equal split with the other two items probably would be a fair assumption.

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

Okay. And on both the chip shortage and just general supply chain issues unrelated to chips, just how bad or good is everything right now? Is the chip shortage mostly behind you?

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

Yes, I think in general, the component shortages, you still have a component shortage pop up once in a while. But in general, the big constraints that we've seen and experienced are behind. And I think as we've kind of mentioned before, we're in the stage of redesign, kicking off redesigns to start pulling cost out of the bill of materials.

Operator

(Operator Instructions) And our next question comes from the line of Ron Jewsikow with Guggenheim Securities.

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

Just a follow-up on some of the next-generation product discussions. In '24/'25, how much of kind of the revenue growth is assumed to be coming from new products? I assume that's heavily weighted towards driver monitoring.

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

Yes, I would say -- I mean, if you consider new products, it depends on do you mean -- do you consider FDM growth to be a new product or a legacy product?

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

Yes, I probably shouldn't call it legacy at this point. But this is more focused, I would say, on DMS and other stuff.

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

Yes, if you look at that, I'd say probably about half of the growth is going to be driven -- half of the incremental growth rate will be driven by new technology.

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

That includes FDM then though, right?

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

Yes, included in it, yes.

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

If we exclude FDM, is it closer to like 1% or just trying to...

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

No, I'd say about 1/4 of it would be then from things outside of FDM that are new products.

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

Okay, that's helpful. And then on the '25 guide specifically, if we think about kind of the 8% year-over-year number that you guys are guiding towards at the midpoint, how should we think about FDM contribution, traditional electrochromics and other products? And then I guess, more importantly, what will be needed to drive revenue growth closer to the 10% year-over-year implied at the high end of the guidance?

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

Yes, I think what would be needed to get to the higher end would be some help on LVP and then obviously, stabilization in take rates, especially of FDM. Those would be the two big takeaways for '24, right? Those would be the things that would actually help us get to the high end of that range.

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

And then most of the LVP is growing in China in that 25% range, not North America or, right, Japan, Korea.

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

Okay. No, that's helpful color. And then just sneak one more in, a bit of a follow-up on kind of the cadence for this year. But I know in a normal year, you start getting better pricing from your supply base closer to midyear. Is that still a good way to think about this year? I know we're kind of not in a normal environment right now. Or are you already seeing better pricing from your Tier 2s?

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

Yes, I think we've -- the pricing is fairly locked in. It's just a matter of burning through that inventory, which is on average about 2 to 3 months for us. So that's one Steve referred to it earlier as contracts are pretty much locked in, or I wouldn't say 100%, but we feel pretty good about it. Starting in the end of the first quarter into the second is when you start to see the benefit of that roll through the financials.

Operator

And I would now like to turn the conference back over to Josh O'Berski for closing remarks.

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

Thank you, everyone, for your time and questions today. As a reminder, Gentex will be hosting an Analyst and Investor Day on the morning of March 19, 2024, in New York at the Nasdaq building in Times Square. If you're interested in attending, please reach out to me directly, and we can follow up from there. Thanks again for the questions today, hope everyone has a great weekend.

Operator

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

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