

## Gentex Corporation(GNTX)

**\$31.16** (As of 01/16/20)

Price Target (6-12 Months): **\$33.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 04/01/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**2-Buy**

Zacks Style Scores:

VGM:D

Value: D

Growth: C

Momentum: F

## Summary

Gentex aims to attain long-term growth, driven by robust product launches, better mix and unique technology platforms. Further, Gentex's sales improved backed by rising auto-dimming mirror shipments in the North American market. It remains steadfast in its efforts to provide unique, value-added solutions for its customers. The company pursues an aggressive capital-deployment strategy. Moreover, the company is focused on developing dimmable devices that are enabled with new technologies to cater to the increasing demand for technically-advanced auto parts. However, decline in global light-vehicle production and adverse impacts of tariff on gross margin is pressurizing Gentex. Further, high operating expenses and pricing pressure from automotive customers and competitors are concerns for Gentex. Hence, the stock warrants a cautious stance.

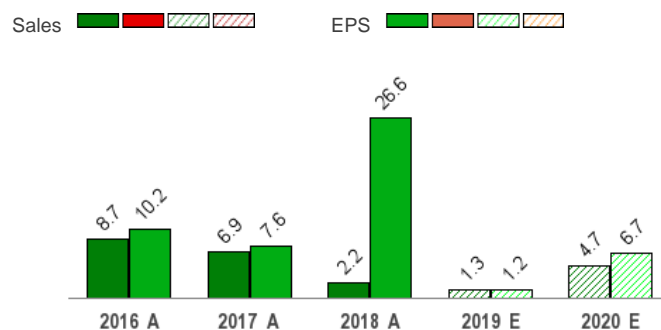
## Price, Consensus & Surprise



## Data Overview

52 Week High-Low	\$31.18 - \$19.55
20 Day Average Volume (sh)	1,482,466
Market Cap	\$7.9 B
YTD Price Change	7.5%
Beta	1.15
Dividend / Div Yld	\$0.46 / 1.5%
Industry	<a href="#">Automotive - Original Equipment</a>
Zacks Industry Rank	Bottom 33% (171 out of 254)

## Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	4.8%
Last Sales Surprise	0.1%
EPS F1 Est- 4 week change	0.8%
Expected Report Date	01/31/2020
Earnings ESP	0.0%
P/E TTM	18.7
P/E F1	17.8
PEG F1	3.6
P/S TTM	4.2

## Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	485 E	485 E	504 E	472 E	1,945 E
2019	469 A	469 A	478 A	442 E	1,857 E
2018	465 A	455 A	460 A	453 A	1,834 A

## EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.43 E	\$0.45 E	\$0.47 E	\$0.44 E	\$1.75 E
2019	\$0.40 A	\$0.42 A	\$0.44 A	\$0.37 E	\$1.64 E
2018	\$0.40 A	\$0.40 A	\$0.42 A	\$0.41 A	\$1.62 A

\*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/16/2020. The reports text is as of 01/17/2020.

## Overview

Zeeland, MI-based Gentex Corporation is engaged in supplying automatic-dimming rear-view mirrors and electronics to the automotive industry; fire protection products to the fire protection market; and dimmable aircraft windows for aviation markets.

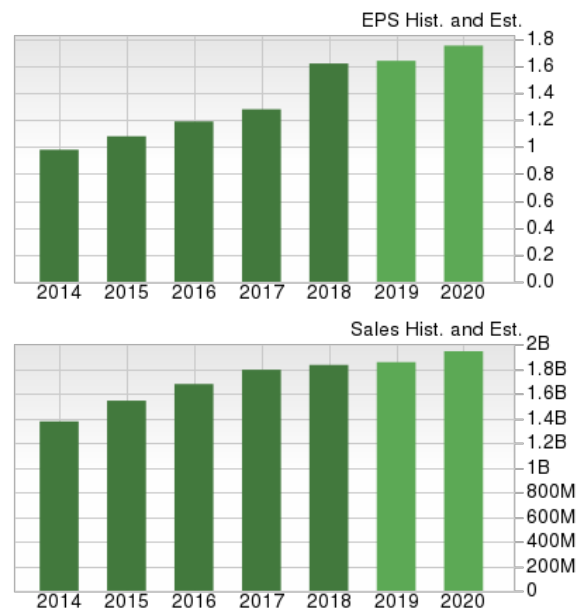
Gentex Corporation currently has the following reportable segments: Automotive Products which includes Automotive Rear-view Mirrors and Electronics and HomeLink Modules; and other segments which includes Dimmable Aircraft Windows and Fire Protection Products.

**Automotive Rear-view Mirrors and Electronics:** The company manufactures interior electrochromic automatic-dimming rear-view mirrors that darken to reduce glare and improve visibility for the driver. These electronic interior mirrors can also include additional electronic features such as compass, microphones, lighting assist and driver assist forward safety camera systems, and a wide variety of displays. The segment generated revenues of \$1.6 billion for the year ended December 2018.

**HomeLink Modules:** The company manufactures and sells HomeLink Modules individually, as well as in combination with the automotive mirrors and other advanced features, as described above. For the majority of automotive products, transfer of control and revenue recognition occurs when the company ships the product from the manufacturing facility to the customer. The segment generated revenues of \$0.19 billion for the year ended December 2018.

**Dimmable Aircraft Windows:** The company supplies variable dimmable windows for the passenger compartment on the Boeing 787 Dreamliner Series of Aircraft. For dimmable aircraft windows, transfer of control and revenue recognition occurs when the company ships the product from the manufacturing facility to the customer. The segment generated revenues of \$221 million for the year ended December 2018.

**Fire Protection Products:** The company manufactures photoelectric smoke detectors and alarms, visual signaling alarms, electrochemical carbon monoxide detectors and alarms, audible and visual signaling alarms, and bells and speakers for use in fire detection systems in office buildings, hotels, and other commercial and residential buildings. The segment generated revenues of \$207 million for the year ended December 2018.



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## Reasons To Buy:

- ▲ Gentex aims at creating long-term growth, driven by product launches, improved product mix and unique technology platforms. The company remains steadfast in its efforts to provide unique, value-added solutions for its customers that provide scalable platforms focused on the consumer and engineered specifically to each OEM's requirements next several years. Further, the company is focused on developing dimmable devices that are enabled with new technologies to cater to the increasing demand for technically-advanced auto parts.
- ▲ The company is likely to gain mostly from its advanced features products. Of the total launches in the last reported quarter, 60% had advanced features. Integrated Tool Module (ITM) and HomeLink have significant runaways for growth, going forward. Multiple avenues for revenues can be generated beyond toll paying. Also, penetration for HomeLink is likely to grow higher as the demand for connectivity to the home increases. Gentex's HomeLink Connect app enables users to control their existing home automation devices. The firm's growth avenues in tech products diversify and enhance its future prospects.
- ▲ Shipments of domestic exterior mirrors along with full-display mirrors continue their impressive growth streak, aiding the revenues of Gentex. The firm's production shipment of electronically dimmable windows to Boeing for the 777x program is commendable. The 777 launch is the first aerospace program for Gentex, thereby becoming a Tier 1 supplier in aerospace, which is likely to further bolster growth prospects of the firm.
- ▲ Gentex's clean balance sheet and investor friendly moves bode well. Considering the company's high cash balance and almost no debt, it is highly committed to returning value to its shareholders. The company has continually repurchased shares and intends to continue to buying back additional shares of its common stock to support its capital allocation strategy. Further, it opts for regular quarterly dividend payments to reward shareholders, which boosts investor's confidence.

Strong product launches, unique technology platforms and aggressive capital-deployment strategy aid Gentex.

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## Reasons To Sell:

- ▼ Based on the HIS Markit forecasts, global light vehicle production is expected to decline in the coming period amid weakened economy. Resultantly, the car rearview mirror maker is likely to bear the brunt of declining demand of its products, which will hamper its top-line growth. Amid the forecast of lower light-vehicle production in North America, Europe, China and other key markets, the company's bottom line are likely to get impacted. The UAW-General Motors strike is also likely to weigh on the company's upcoming results.
- ▼ The company's dim outlook for 2019 is also likely to dampen investors' confidence. It now expects revenues of \$1.84-\$1.87 billion versus \$1.87-\$1.90 billion mentioned earlier. Gross margin is anticipated to be 36.6-37.0% for the current year compared with previously mentioned 36.5%-37.5%. Operating expenses are now projected at \$198-\$200 million compared with \$195-\$200 million stated earlier.
- ▼ The company is bogged down by operational inefficiencies since the past several quarters. Rising operating, SG&A and R&D costs are denting the profit levels of the firm. The trend is expected to continue amid new product launches, which remains a headwind.
- ▼ Increasing competition along with tariff costs are other causes of concern. The company's margins have been declining amid tariff costs. Tariffs in China still remains a concern, in turn, escalating cost of raw materials, which may dent the company's margins.

Tariff-related costs and high operating expenses are major tailwinds for Gentex.

## Last Earnings Report

### Gentex Tops on Q3 Earnings, Dims View

Gentex's delivered third-quarter 2019 earnings per share of 44 cents, which beat the Zacks Consensus Estimate of 42 cents on higher revenues and increasing auto-dimming mirror shipments. In the year-ago quarter, the company's earnings were 42 cents. Its net income rose to \$111.9 million from \$111.3 million reported in third-quarter 2018.

During the quarter under review, the company delivered net sales of \$477.8 million, which nominally beat the Zacks Consensus Estimate of \$477 million. Moreover, the top line grew 3.8% from the year-ago quarter's figure of \$460.3 million.

Quarter Ending **09/2019**

Report Date	Oct 18, 2019
Sales Surprise	0.13%
EPS Surprise	4.76%
Quarterly EPS	0.44
Annual EPS (TTM)	1.67

### Q3 Highlights

The company recorded gross margin of 37.7% in the quarter under review, up from the year-ago quarter's 37.6% on favorable product mix, partially offsetting tariff woes.

In the quarter, auto-dimming mirror shipments in the North America market rose 11% to 3.5 million units. In the International market, the same grew 4% to 7.3 million units. Total shipments rose 6% year over year to 10.8 million units.

Operating expenses rose 15% to \$52.2 million in third-quarter 2019 from \$45.6 million in third-quarter 2018. Higher engineering and R&D expenses along with increased SG&A costs drove total costs. Engineering and R&D expenses rose 9.2% to \$29.4 million in third-quarter 2019 from 26.9 million in third-quarter 2018. SG&A expenses rose 21.9% to \$22.8 million from \$18.7 million in the year ago quarter.

### Share Repurchase & Cash Position

During the quarter under review, the company repurchased approximately 3.6 million shares of its common stock at \$27.07 per share. As of Sep 30, 2019, Gentex had around 22.5 million shares remaining for repurchase. The company intends to continue to repurchase additional shares of its common stock to support the capital-allocation strategy.

Gentex had cash and cash equivalents of \$260.1 million as of Sep 30, 2019, compared with \$217 million as of Dec 31, 2018.

### Outlook Trimmed

Amid the forecast of lower light-vehicle production in North America, Europe, China and other key markets, the company trimmed its outlook for 2019. The UAW-General Motors strike is also likely to weigh on the company's upcoming results, leading to a revenue decline.

The company revised its guidance downward for 2019. It now expects revenues of \$1.84-\$1.87 billion versus \$1.87-\$1.90 billion mentioned earlier. Gross margin is anticipated to be 36.6-37.0% for the current year compared with previously mentioned 36.5%-37.5%. Operating expenses are now projected at \$198-\$200 million compared with \$195-\$200 million stated earlier. Capex forecast remained unchanged for 2019.

## Valuation

Gentex's shares are up 35.7% in the trailing 12-month period. Stocks in the Zacks Automotive - Original Equipment industry and the Zacks Auto-Tires-Trucks sector are up 7.2% and up 9.2% over the past year, respectively. The S&P 500 index is up 22.2% in the past year.

The stock is currently trading at 17.76X forward 12-month earnings, which compares to 12.98X for the Zacks sub-industry, 10.78X for the Zacks sector and 18.95X for the S&P 500 index.

Over the past five years, the stock has traded as high as 17.96X and as low as 10.36X, with a 5-year median of 14X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$33 price target reflects 18.9X forward 12-month earnings per share.

The table below shows summary valuation data for GNTX:

Valuation Multiples - GNTX					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	17.76	12.98	10.78	18.95
	5-Year High	17.96	13.46	11.75	19.34
	5-Year Low	10.36	8.52	8.23	15.17
	5-Year Median	14	11.61	9.93	17.44
EV/EBITDA TTM	Current	11.82	6.2	8.64	12.2
	5-Year High	11.82	8.66	11.33	12.86
	5-Year Low	6.59	4.63	7.05	8.48
	5-Year Median	8.78	6.2	9.27	10.67
P/S F12M	Current	4.04	0.63	0.67	3.52
	5-Year High	4.04	0.81	0.76	3.52
	5-Year Low	2.27	0.49	0.5	2.54
	5-Year Median	2.99	0.65	0.62	3

As of 01/16/2020

## Industry Analysis Zacks Industry Rank: Bottom 33% (171 out of 254)



## Top Peers

Superior Industries International, Inc. (SUP)	Outperform
Gentherm Inc (THRM)	Outperform
Veoneer, Inc. (VNE)	Outperform
China Yuchai International Limited (CYD)	Neutral
Halfords Group Plc (HLFDY)	Neutral
LCI Industries (LCII)	Neutral
Modine Manufacturing Company (MOD)	Neutral
Wabash National Corporation (WNC)	Underperform

Industry Comparison Industry: Automotive - Original Equipment				Industry Peers		
	GNTX Neutral	X Industry	S&P 500	HLFDY Neutral	MOD Neutral	SUP Outperform
<b>VGM Score</b>	<b>D</b>	-	-	-	<b>B</b>	<b>A</b>
Market Cap	7.88 B	772.21 M	24.61 B	428.10 M	385.04 M	89.71 M
# of Analysts	7	3	13	1	3	1
Dividend Yield	1.48%	0.00%	1.74%	6.49%	0.00%	5.04%
<b>Value Score</b>	<b>D</b>	-	-	<b>A</b>	<b>A</b>	<b>A</b>
Cash/Price	0.06	0.10	0.04	0.08	0.09	0.61
EV/EBITDA	11.88	5.19	14.24	NA	3.21	6.19
PEG Ratio	3.55	1.29	2.07	NA	0.93	NA
Price/Book (P/B)	4.10	1.45	3.38	0.91	0.73	0.27
Price/Cash Flow (P/CF)	15.12	5.00	13.75	3.87	2.44	0.77
P/E (F1)	17.80	11.78	19.09	7.54	9.32	NA
Price/Sales (P/S)	4.22	0.45	2.68	NA	0.18	0.06
Earnings Yield	5.62%	8.31%	5.24%	13.26%	10.69%	-6.16%
Debt/Equity	0.00	0.41	0.72	0.99	0.44	1.82
Cash Flow (\$/share)	2.06	3.65	6.94	1.11	3.11	4.65
<b>Growth Score</b>	<b>C</b>	-	-	<b>B</b>	<b>C</b>	<b>A</b>
Hist. EPS Growth (3-5 yrs)	13.04%	9.38%	10.56%	NA	31.18%	1.61%
Proj. EPS Growth (F1/F0)	6.88%	7.82%	7.57%	-10.94%	-48.20%	69.01%
Curr. Cash Flow Growth	15.11%	6.02%	14.73%	-10.56%	1.41%	-5.32%
Hist. Cash Flow Growth (3-5 yrs)	13.58%	10.36%	9.00%	NA	10.94%	17.82%
Current Ratio	5.42	1.56	1.24	0.75	1.04	1.83
Debt/Capital	0.00%	35.95%	42.99%	49.66%	30.64%	55.44%
Net Margin	23.09%	3.02%	11.14%	NA	1.30%	0.74%
Return on Equity	22.87%	14.34%	17.16%	NA	11.95%	0.94%
Sales/Assets	0.88	1.30	0.55	NA	1.37	1.00
Proj. Sales Growth (F1/F0)	4.78%	1.72%	4.16%	-1.64%	-9.83%	1.89%
<b>Momentum Score</b>	<b>F</b>	-	-	-	<b>D</b>	<b>F</b>
Daily Price Chg	1.19%	0.73%	0.89%	0.00%	2.16%	3.78%
1 Week Price Chg	3.37%	-2.53%	0.39%	0.00%	-5.92%	-14.44%
4 Week Price Chg	6.95%	-0.99%	2.65%	0.00%	-2.07%	-4.29%
12 Week Price Chg	11.87%	1.95%	7.55%	-10.60%	-33.28%	33.71%
52 Week Price Chg	39.27%	4.49%	22.12%	-34.95%	-42.01%	-37.15%
20 Day Average Volume	1,482,466	132,041	1,536,375	0	288,238	184,998
(F1) EPS Est 1 week change	0.41%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.82%	0.00%	0.00%	0.00%	0.00%	-26.92%
(F1) EPS Est 12 week change	-0.65%	-5.19%	-0.40%	7.55%	-40.34%	-164.00%
(Q1) EPS Est Mthly Chg	-0.76%	0.00%	0.00%	NA	0.00%	-100.00%

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## Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

### Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

### Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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### Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	C
Momentum Score	F
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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