



# The Gross Prophets Gentex (GNTX)

# History

- ▶ 1974 – Created First dual-sensor photoelectric smoke detector
- ▶ 1982 – Auto dimming mirror
- ▶ Mirrors purchased by Ford and GM
- ▶ 2005 – Dimmable aircraft windows
- ▶ Acquired HomeLink, Helmet Systems, Aegisound



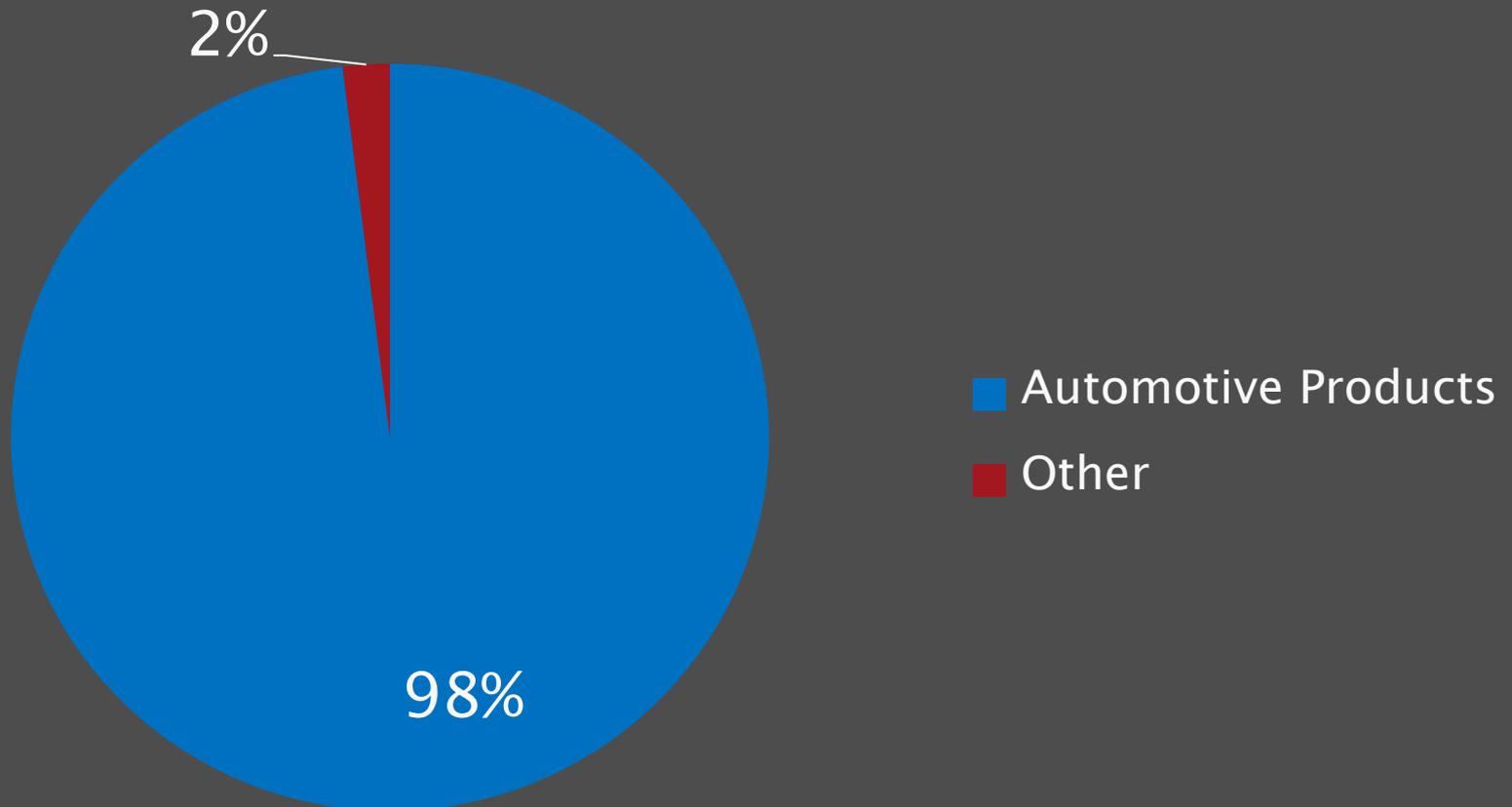
# News

- ▶ Japan and Europe allow cameras to replace all types of mirrors
- ▶ U.S. Army contract
- ▶ Boeing Airplanes

# Business Segments

- ▶ Automotive Products
- ▶ Dimmable Aircraft Windows
- ▶ Fire Protection Products

# Revenue by Segment



# Automotive Products

- ▶ Interior Mirrors
- ▶ Exterior Mirrors
- ▶ HomeLink

# Interior Mirrors

- ▶ Automatic-dimming rearview mirrors



# Interior Mirror Features

- ▶ HomeLink
- ▶ Frameless Mirror
- ▶ LED Map Lamps
- ▶ Compass/Temperature
- ▶ Biometric Authentication
- ▶ Hands Free Communication
- ▶ Rear Camera Display
- ▶ Full Display Mirror
- ▶ Toll Modules

# Toll Modules (ITM)

All US toll roads (current & future) will have readers that read one or more of the protocols within the ITM.



# HomeLink

- ▶ Sole supplier of wireless in-vehicle communication devices
- ▶ Communicates with
  - Garages
  - Gates
  - Parking Barriers
- ▶ Growth opportunity in Asian Market



## SmartBeam

Photobit Equity Stake in 1998



## HomeLink

Licensed in 1999

Acquired from JCI in 2013



## ITM

Partnership with Transcore in 2015



## Biometrics

Delta ID Partnership in 2016



## CMS

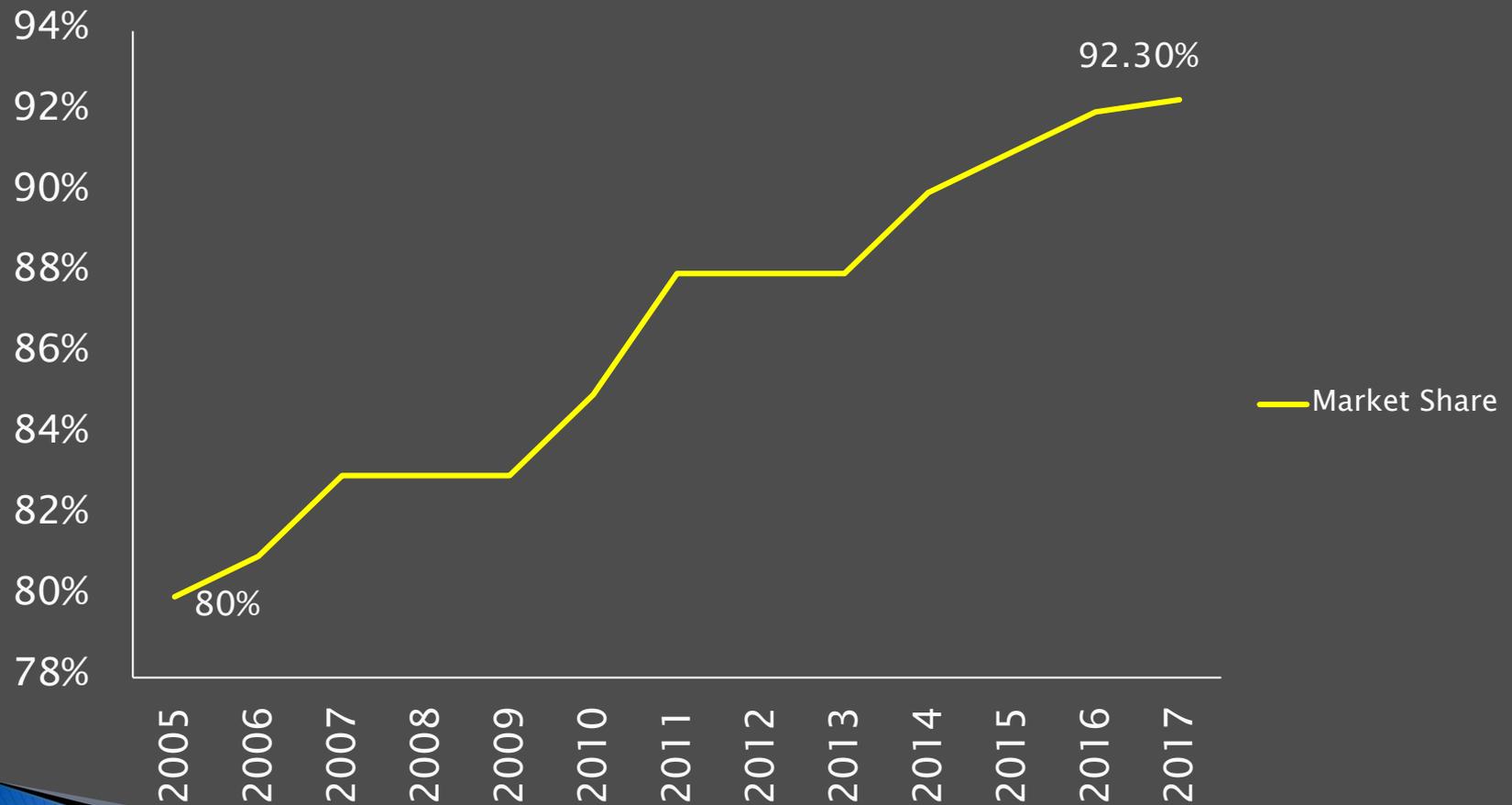
Co-development with Ambarella in 2016

# Exterior Mirrors

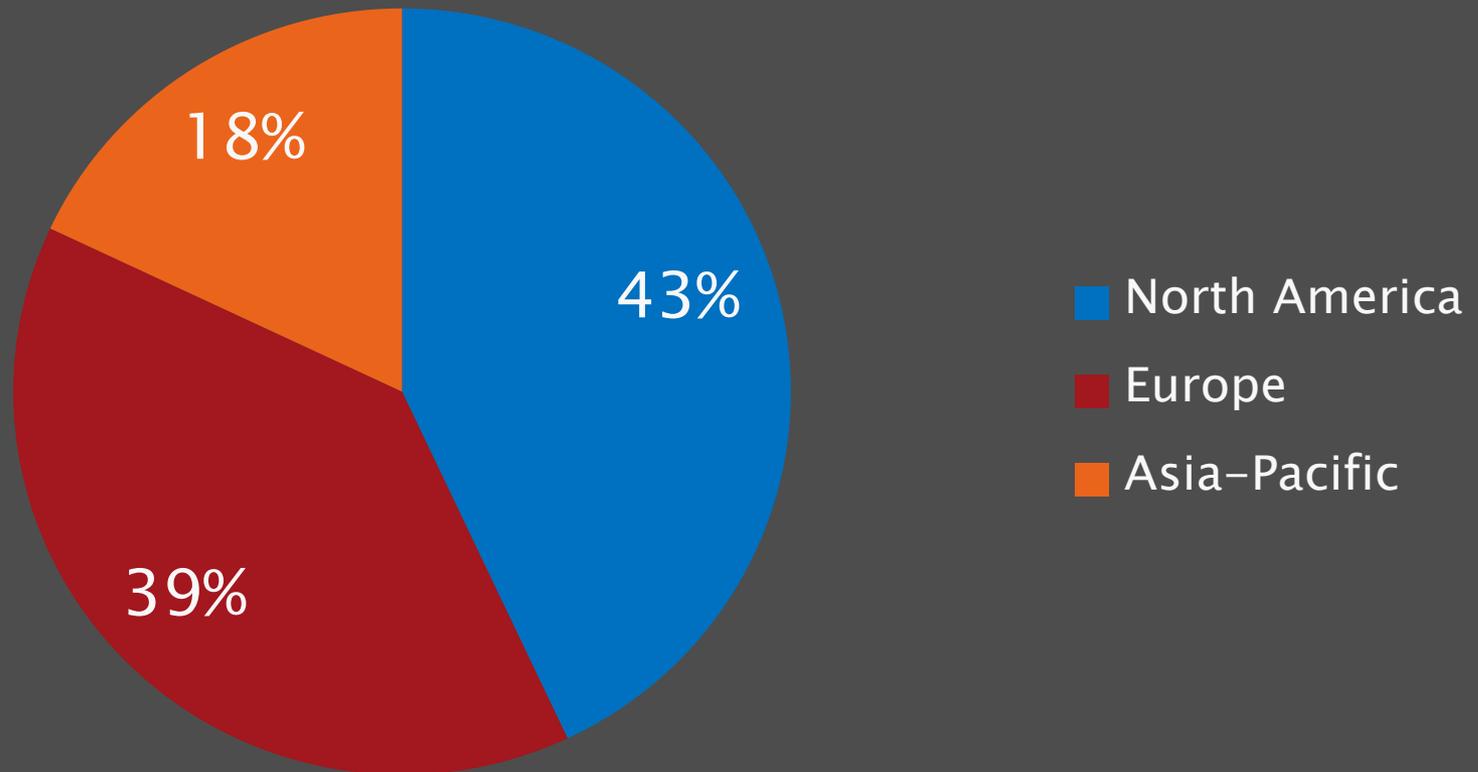
- ▶ Automatic-dimming
- ▶ Sensors
- ▶ Approaching light
- ▶ Curved Glass
- ▶ Lane Departure



# Market Share



# Automatic-Dimming Mirror Shipments



# Shipments

## NORTH AMERICAN SHIPMENTS

2016	2015	
12,698	11,984	+6%
9,068	8,649	+5% 
3,631	3,335	+9% 

## INTERNATIONAL SHIPMENTS

2016	2015	
23,404	21,002	+11%
16,957	14,868	+14% 
6,447	6,133	+5% 

# Production

- ▶ All mirrors are made in the United States
- ▶ Capacity to build 33 million interior mirrors
- ▶ Capacity to build 15 million exterior mirrors
- ▶ Offices in Europe and Japan for engineering

# Dimmable Aircraft Windows

- ▶ Passenger Compartment on Boeing 787
- ▶ First Commercialized



# Fire Protection

- ▶ In 1974, First dual-sensor photoelectric smoke detector
- ▶ Smoke Alarms
- ▶ Sell to distributors



# Trademarks and Patents

## Gentex Intellectual Property



1,208 Patents

566 U.S.  
642 foreign



281 Registered Trademarks

33 U.S.  
248 foreign



657 Applications In Process

276 U.S. patents  
252 foreign patents  
129 trademarks

# Risk

- ▶ Automotive Industry
  - Technological Advances
- ▶ Car Market
  - Cyclical
- ▶ Key Customers
  - Volkswagen, Toyota, Ford each account for 10%
- ▶ Magna International
- ▶ Pricing Pressures
- ▶ Government Regulation

# Government Regulation

- ▶ Japan and Europe allow cameras to replace all types of mirrors
- ▶ US has litigation to allow cameras
- ▶ Cameras vision can be hindered
- ▶ Cameras have been implemented in new mirrors

# The Future

The future of automotive technology is the combination of mirrors, cameras and other advanced technologies.

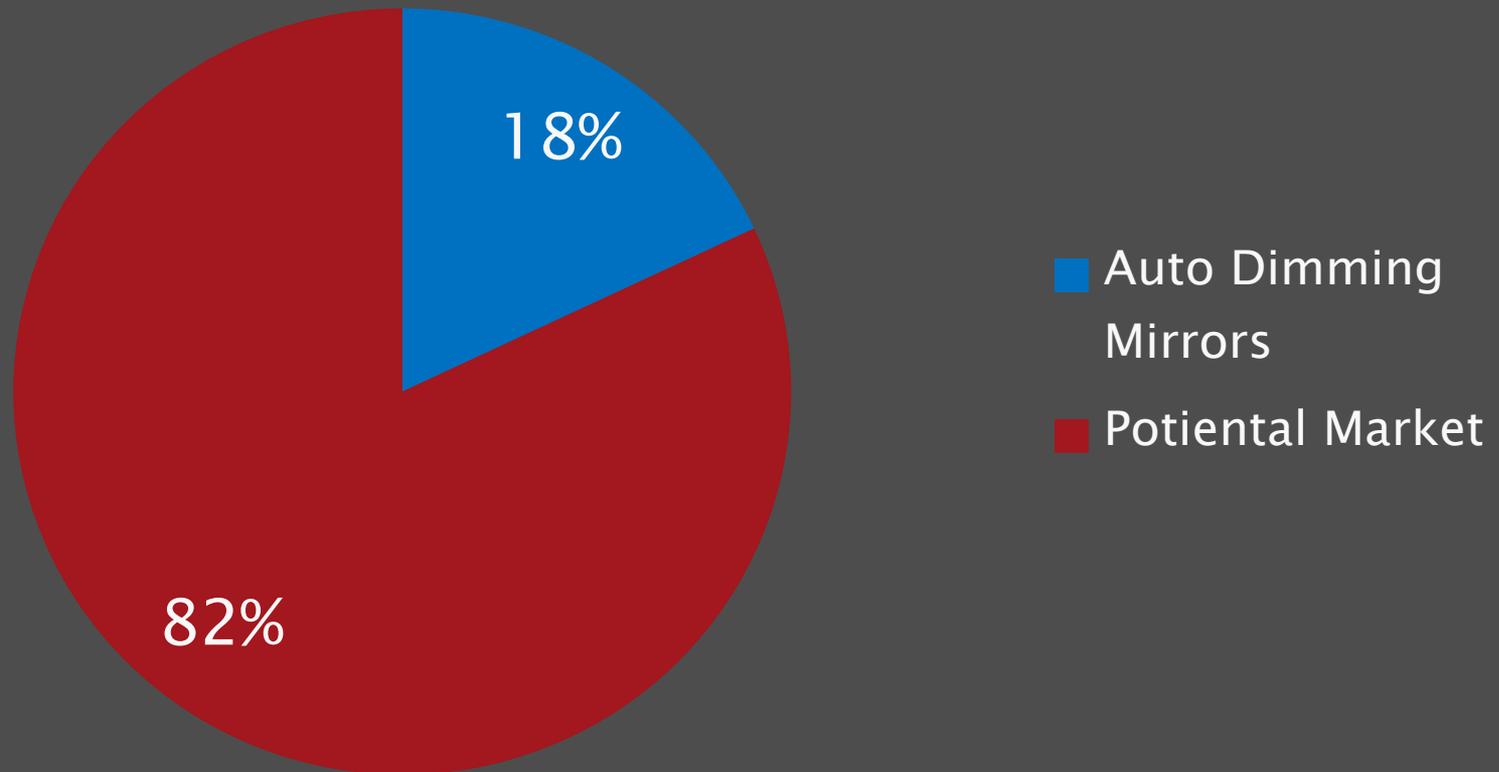
# The Future

- ▶ In-vehicle Payment Capability
  - Restaurants
  - Gas Stations
  - Parking Structures
  
- ▶ Full Display Mirrors
  
- ▶ HomeLink
  - App on phone
  - Farm Equipment
  - Lawn mowers, snowmobiles, etc.
  
- ▶ Camera Monitoring System

# Growth

- ▶ SmartBeam
- ▶ Dimmable Aircraft Windows
  - Grew \$3 million dollars (7%)
- ▶ Market Share
- ▶ Transcore

# Overall Market with Auto Dimming Mirrors



# Competitive Advantage

- ▶ Monopoly
  - 92% of market share
- ▶ Economies of scale
- ▶ Niche market
- ▶ Patent protected
- ▶ Switching Costs

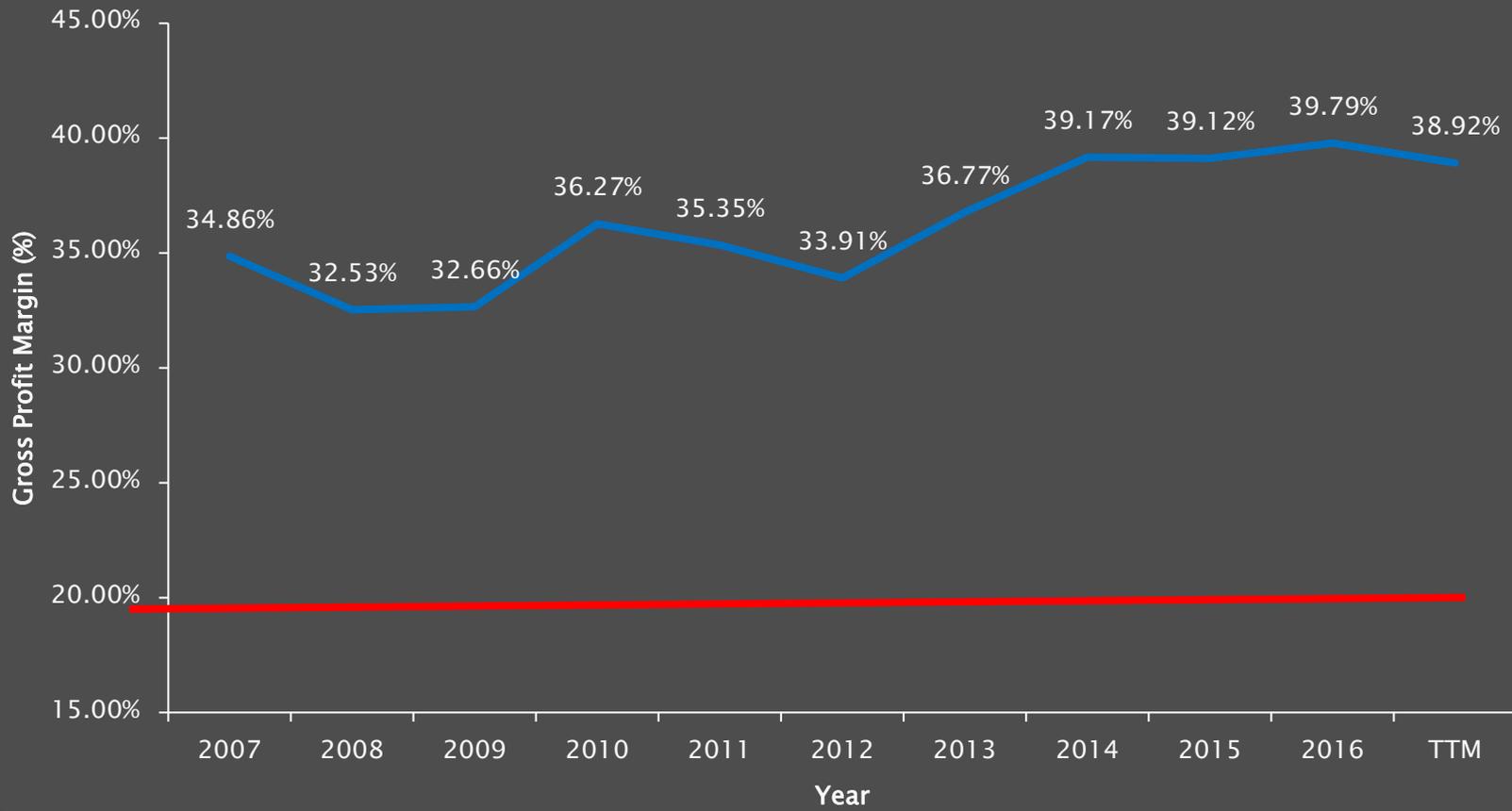
# Qualitative Analysis

What type of business is this: commodity or sustained competitive advantage?	Sustained competitive advantage
Can you easily explain what the business does?	Yes
Is it heavily unionized?	No
Does it require heavy capital infusion?	Yes
Does it require lots of research and development?	Yes
Can inventory become obsolete?	No
Are there chronic "one time" write offs?	No
Is the company able to raise its prices to offset inflation?	Yes
Will the company be able to sell more in the future?	Yes
If I gave you \$1 billion could you develop a competitor? If the answer is "no" your business has a sustained competitive advantage.	Yes

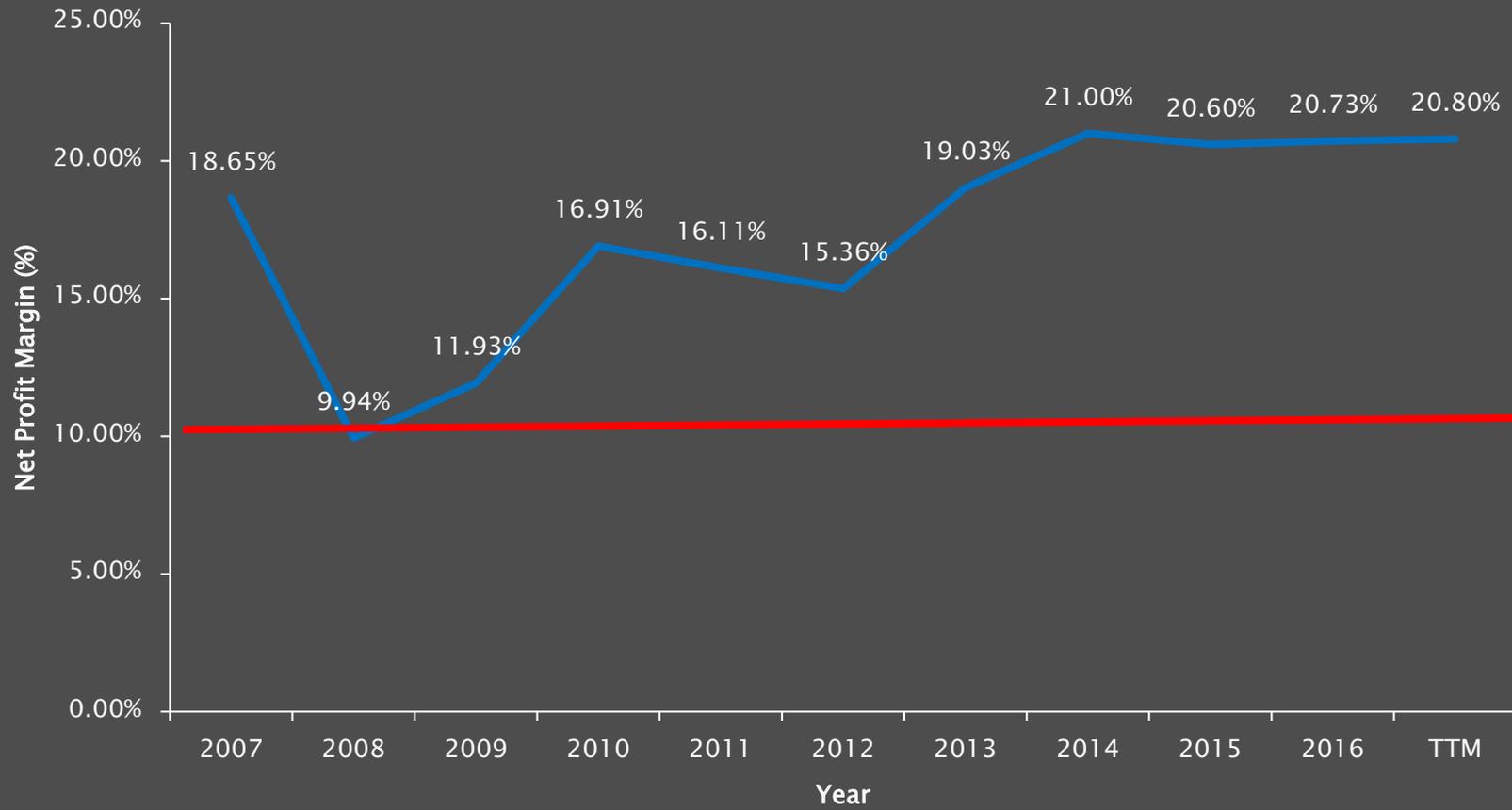
# Interpretation of Financial Statements

<u>TTM</u>	Value	Low Threshold	Pass?
Gross Profit Margin	38.92%	$\geq 20\%$	Yes
% SGA	9.66%	$\leq 80\%$	Yes
% R&D	14.64%	$\leq 10\%$	No
% Depreciation	0.00%	$\leq 10\%$	Yes
Interest % of OP	0.00%	$\leq 15\%$	Yes
Net Profit Margin	20.80%	$\geq 10\%$	Yes
Current Ratio	4.54	$\geq 1$	Yes
Obligation Ratio	0.00	< 5 years	Yes
Adj. Debt to Shareholder Equity	0.25	< 0.8	Yes
Return on Equity	21.18%	$\geq 15\%$	Yes
Return on Capital	21.07%	$\geq 15\%$	Yes
Dividend Payout Ratio	28.49%	$\leq 60\%$	Yes
Preferred Stock	None	None	None
Capital Expenditures	33.42%	$\leq 25\%$	No
Net Earning Trend	Up	Up	Yes
Retained Earnings Trend	Up	Up	Yes

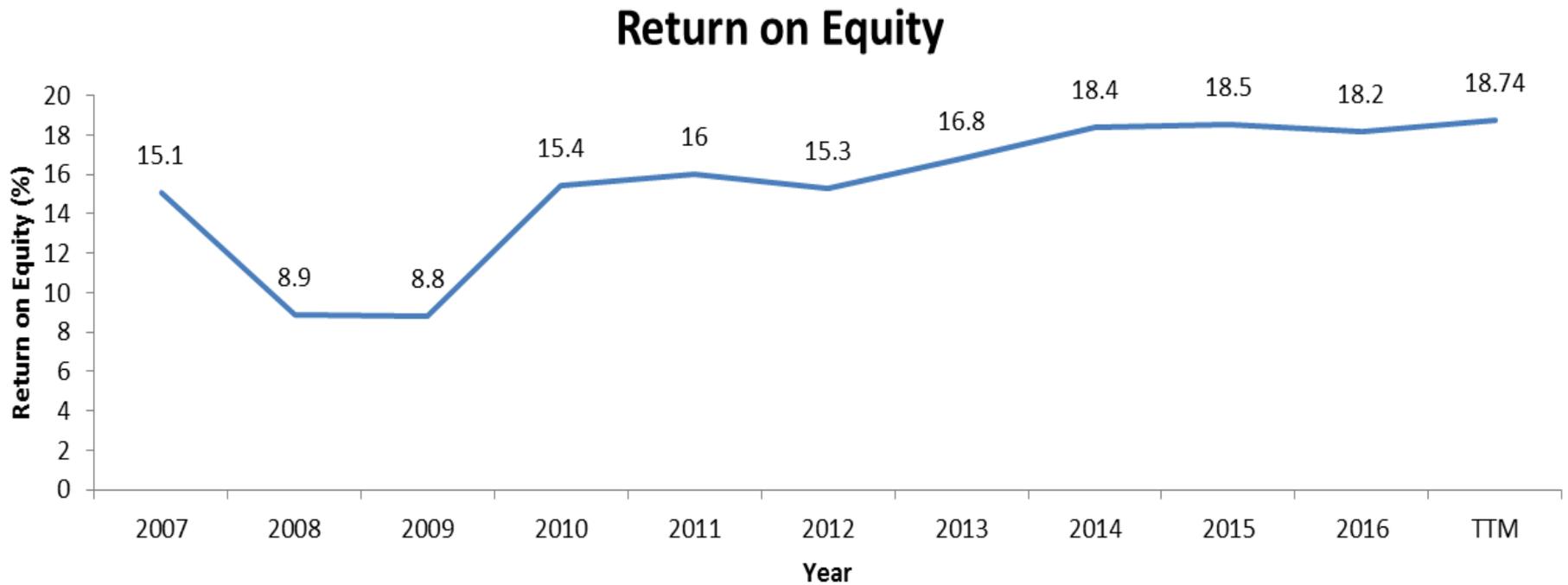
# Gross Profit Margin



# Net Profit Margin

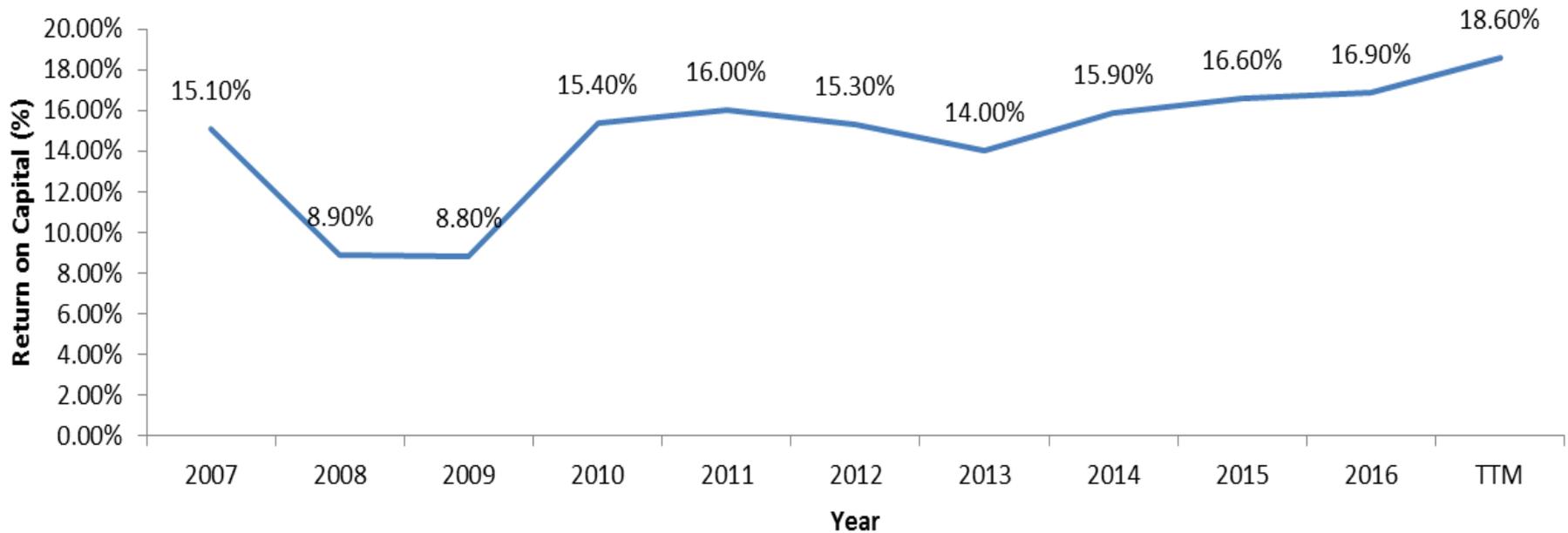


# Return On Equity

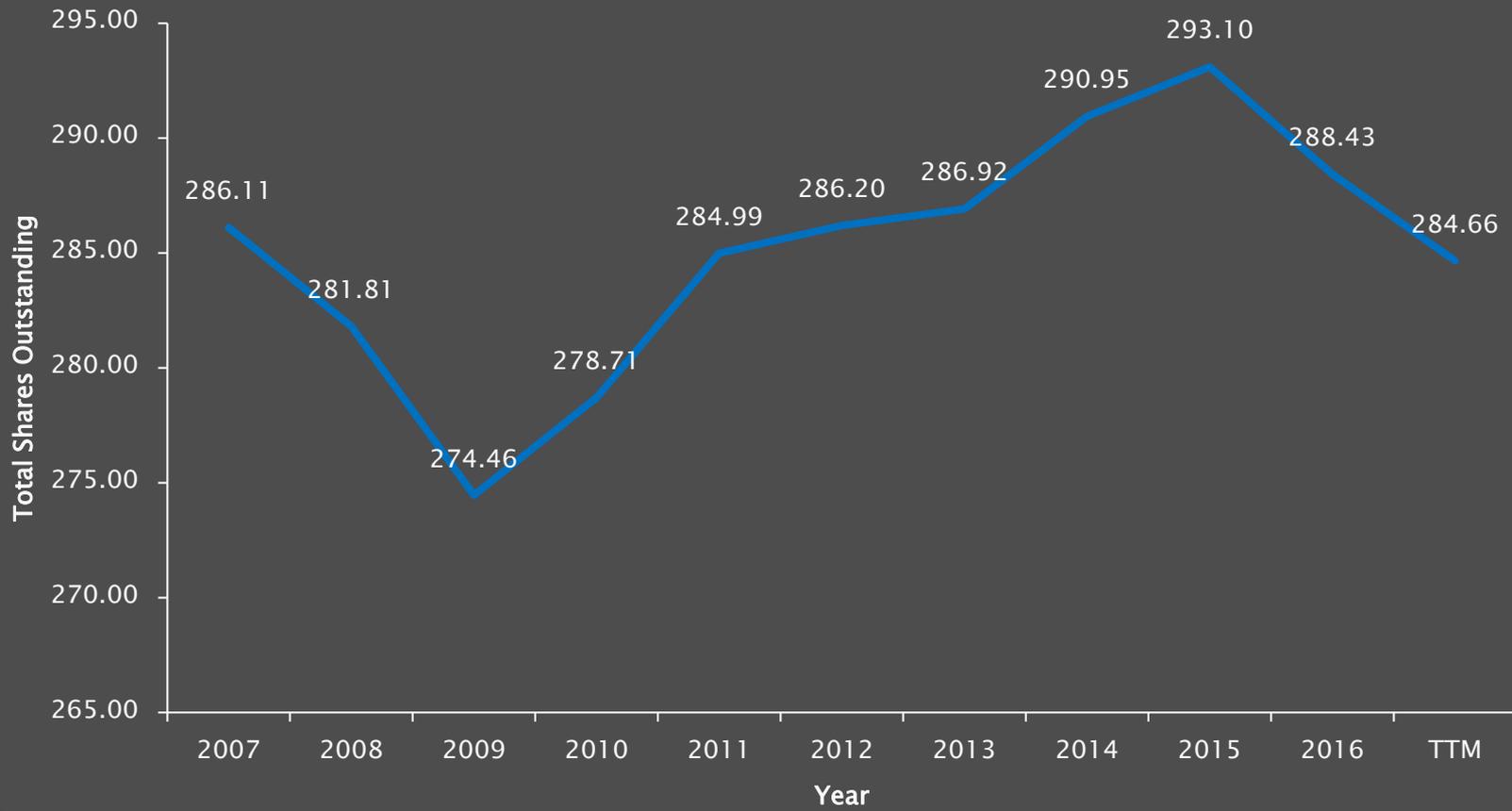


# Return On Capital

## Return on Capital



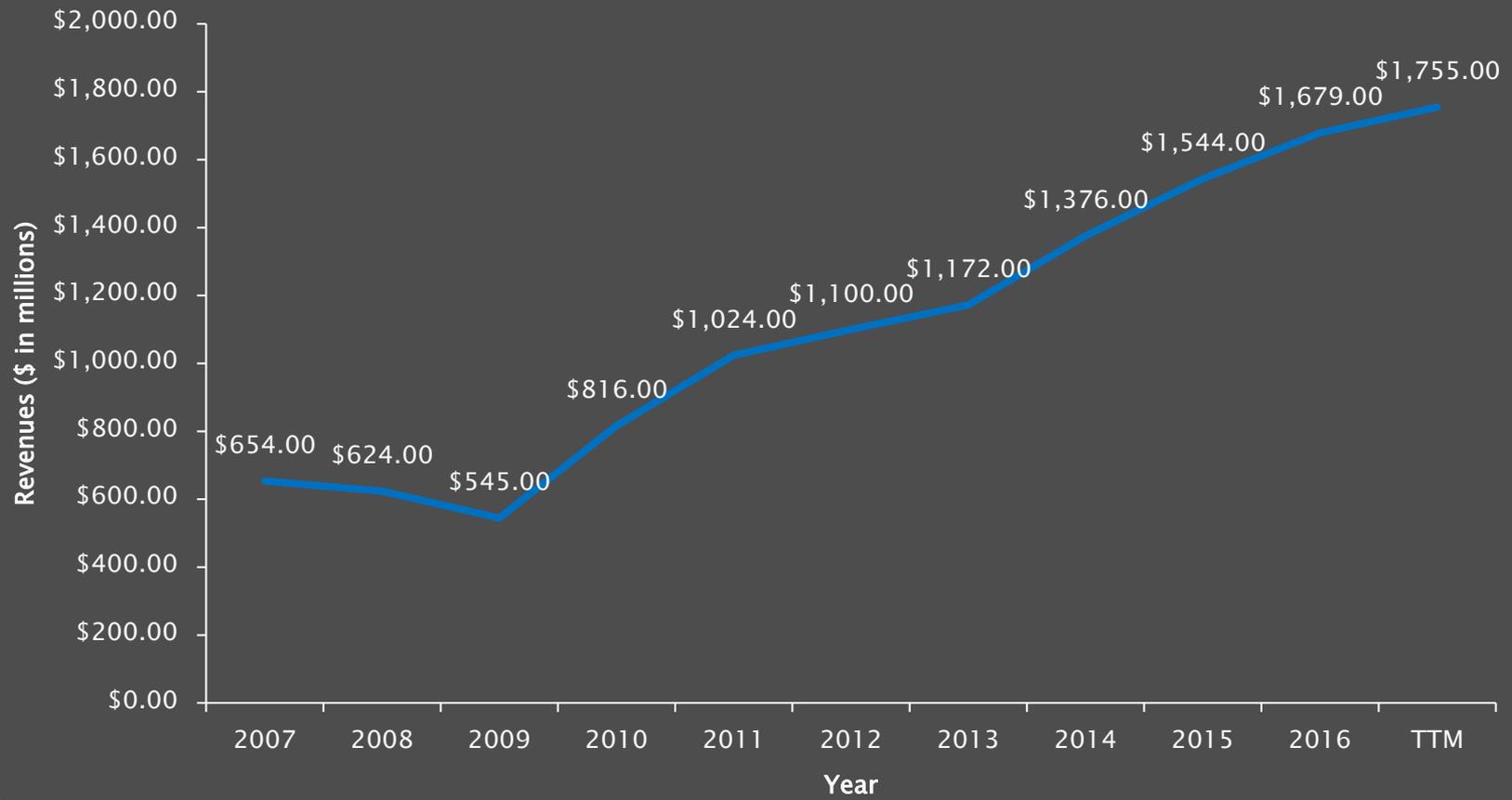
# Total Shares Outstanding



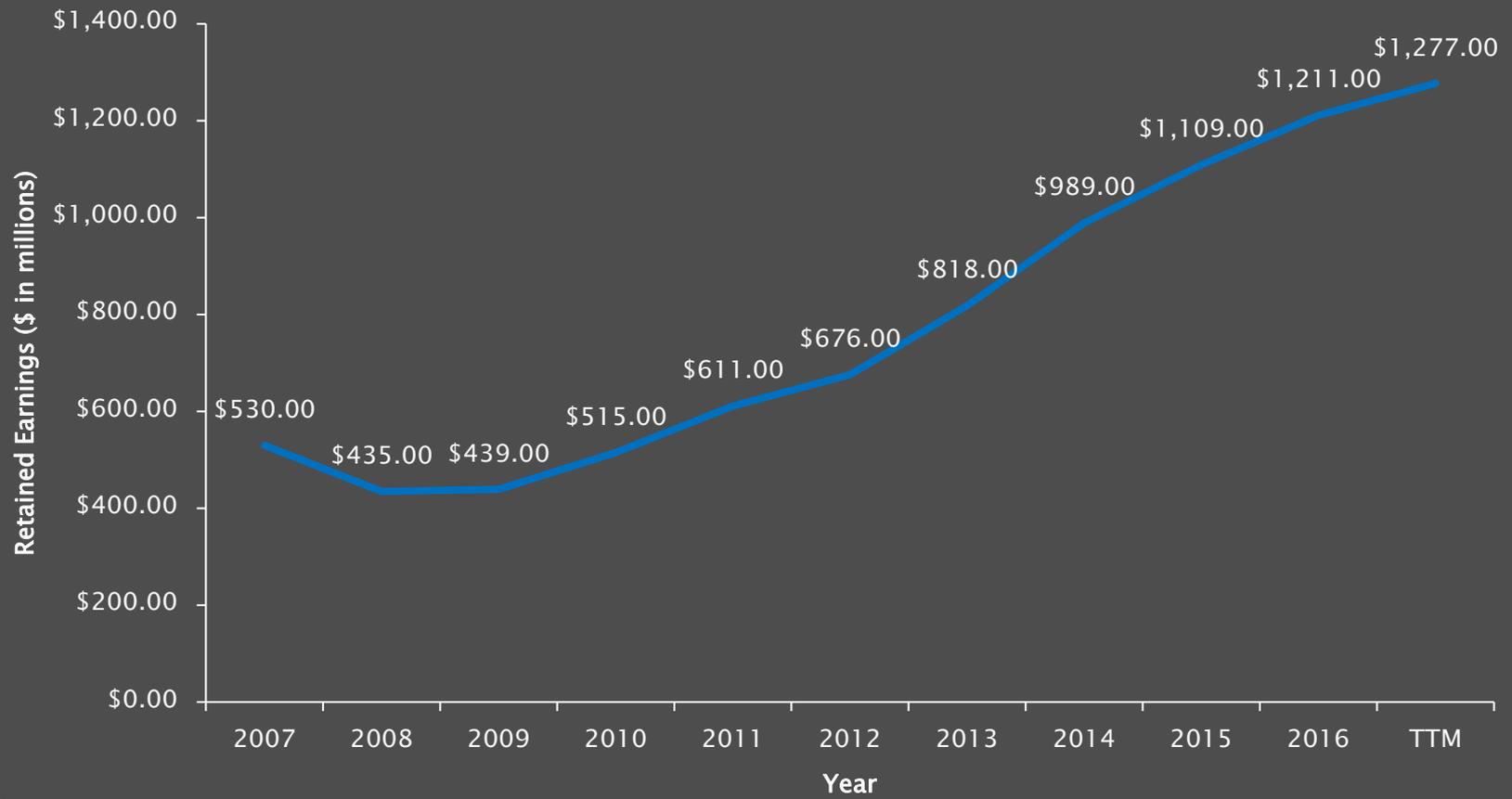
# Share Repurchase

- ▶ Announced buy back program for 15 million shares
  - Worth 5% of company
- ▶ 3 years of consistent buy back
  - New CAO 2014 who supports repurchases

# Revenues (10 year)



# Retained Earnings



Statistical Array Analysis	
Sales Per Share	Increasing
Cashflows per Share	Increasing
Earnings per Share	Increasing
Dividends Declared per Share	Increasing
Capital Spending per Share	Increasing
Book Value per Share	Increasing
Revenues (Sales)	Increasing
Gross Profit Margin	Increasing
Operating Profit Margin	Increasing
Number of Stores	N/A
Net Profit	Increasing
Net Profit Margin	Increasing
Working Capital	Increasing
Shareholder's Equity	Increasing
Return on Total Capital	Increasing
Return on Shareholder's Equity	Stable
Common Shares Outstanding	Decreasing
Long-Term Debt	Decreasing
LT Debt Payable in 5 years	0
All Dividends to Net Profit under 60%	Yes

# DuPont Historical

<b>GNTX</b>	<b>Total Asset Turnover</b>	<b>Net Profit Margin</b>	<b>Financial Leverage Multiplier</b>	<b>Return on Equity</b>
<b>2014</b>	<b>0.68</b>	<b>20.98%</b>	<b>1.29</b>	<b>18.40%</b>
<b>2015</b>	<b>0.72</b>	<b>20.63%</b>	<b>1.25</b>	<b>18.57%</b>
<b>2016</b>	<b>0.73</b>	<b>20.73%</b>	<b>1.21</b>	<b>18.21%</b>
<b>TTM</b>	<b>0.76</b>	<b>21.02%</b>	<b>1.18</b>	<b>18.74%</b>

# Industry breakdown

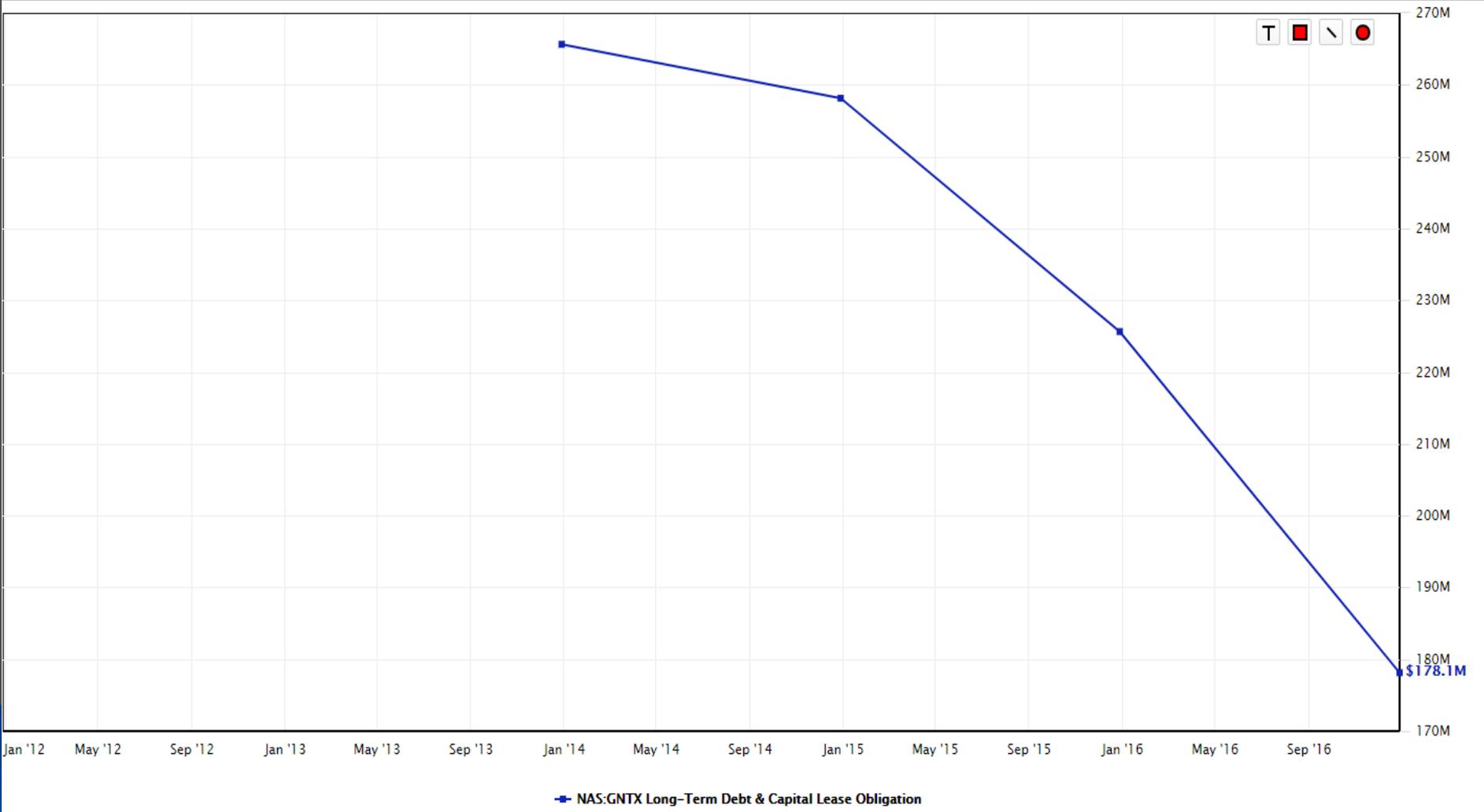
# Industry Breakdown

	Gentex	Magna International	BYD Auto Company	Tokai Rika
Market Cap	5.49 B	20.41 B	26.3 B	1.9 B
Revenue	1.8 B	37.2 B	14.6 B	4.2 B
P/E	15.37	9.18	38.9	N/A
P/S	3.19	0.54	1.63	0.46
P/B	2.71	1.78	3.18	1.05
EV/EBIT	9.15	7.56	28.4	16.94
ROA	15.7	9.18	3.18	-0.92
ROE	18.74%	19.80%	8.54%	-1.7%
Operating Margin	29.47%	7.48%	9.13%	6.22%
Net Margin	20.80%	5.73%	4.50%	-0.73%

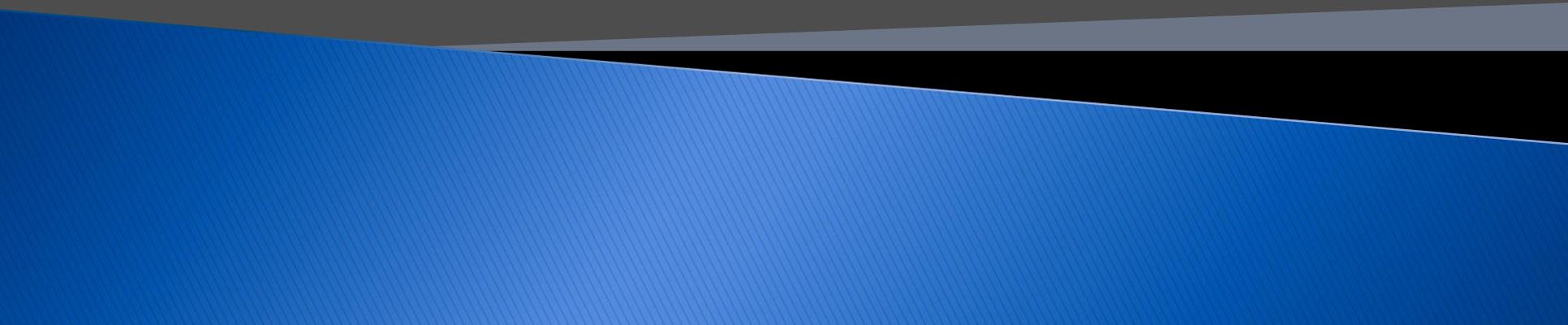
# DuPont Competitors

	Total Asset Turnover	Net Profit Margin	Financial Leverage Multiplier	Return on Equity
Gentex	0.74	20.80%	1.17	18.74%
Magna International	1.53	5.73%	2.26	19.80%
BYD Auto Company	0.65	4.50%	2.92	8.54%
Tokai Rika	1.28	-0.73%	1.8	-1.70%

# Debt



# Valuebands



# Price/Sales



# Price/Earnings



# Price/Earnings less Cash



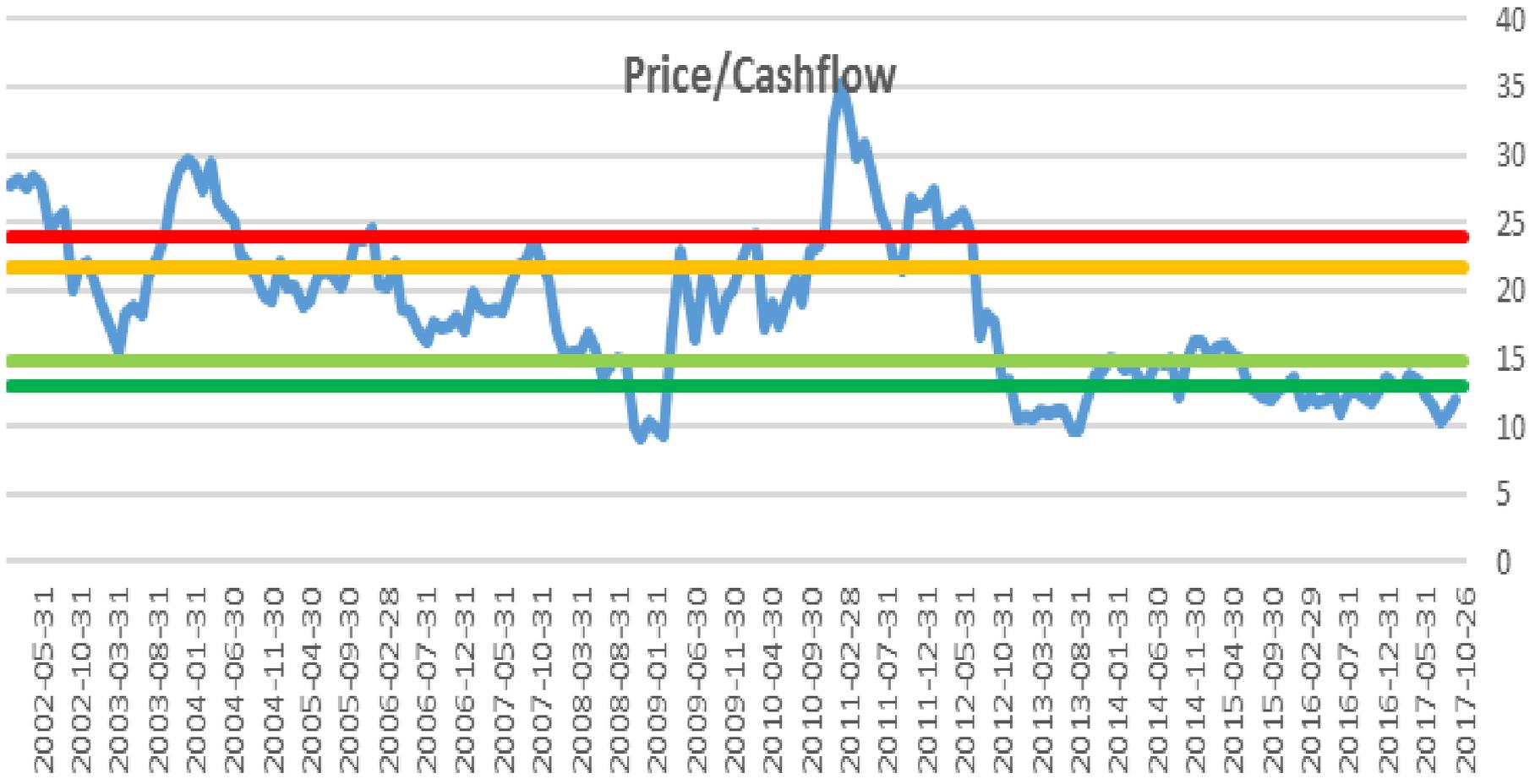
# Price/Owner's Earnings



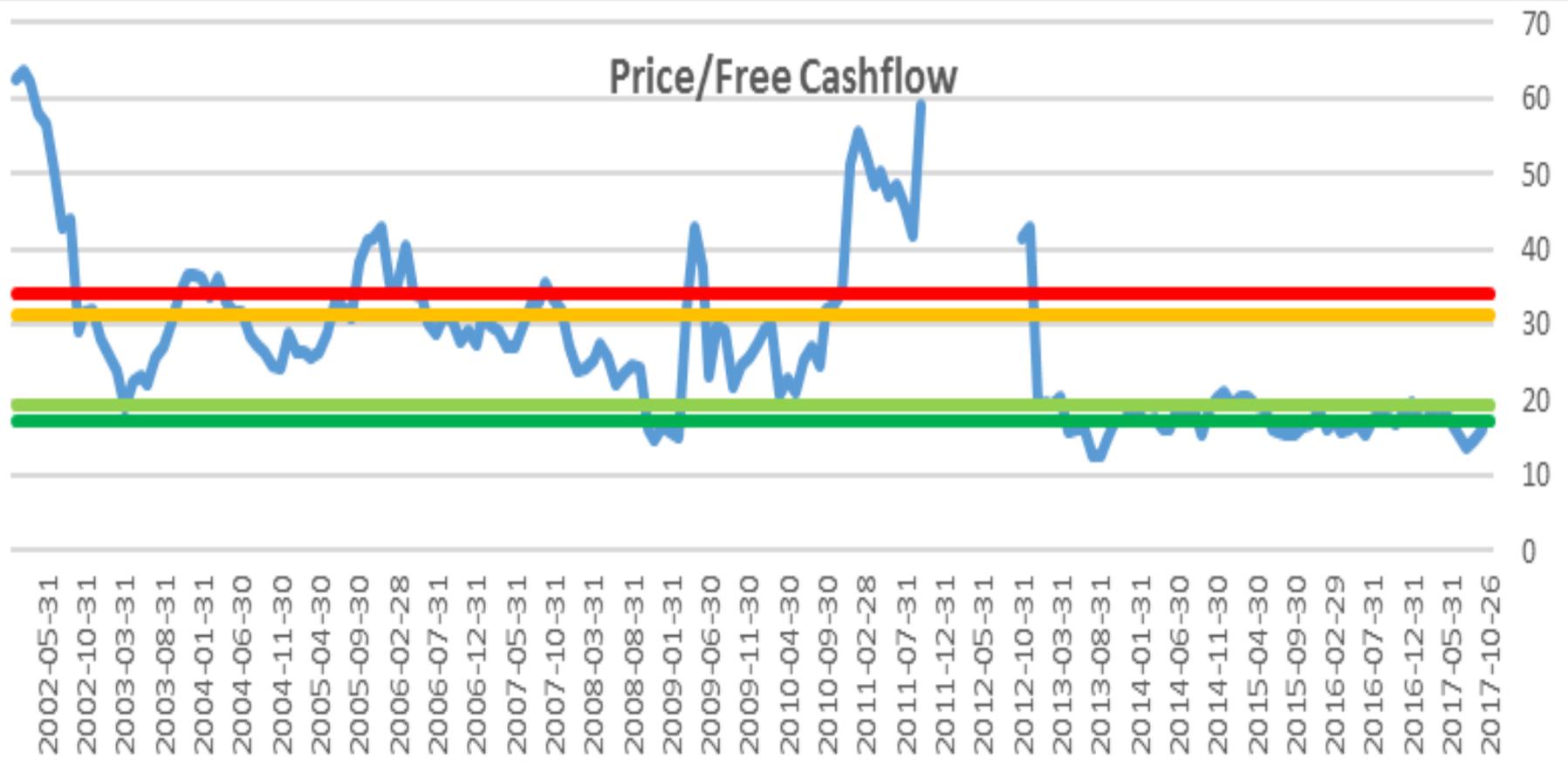
# Price/Book



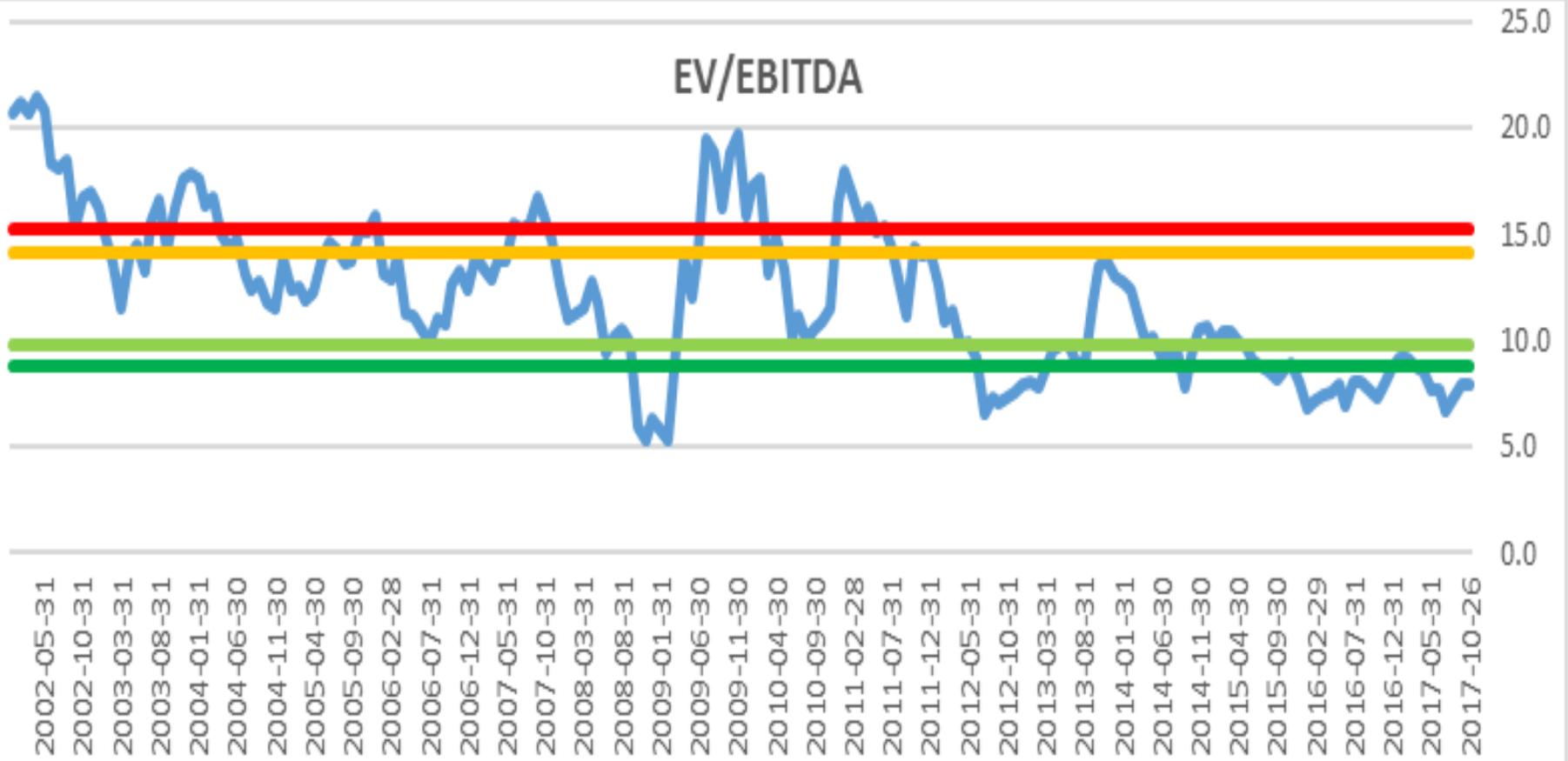
# Price/Cashflow

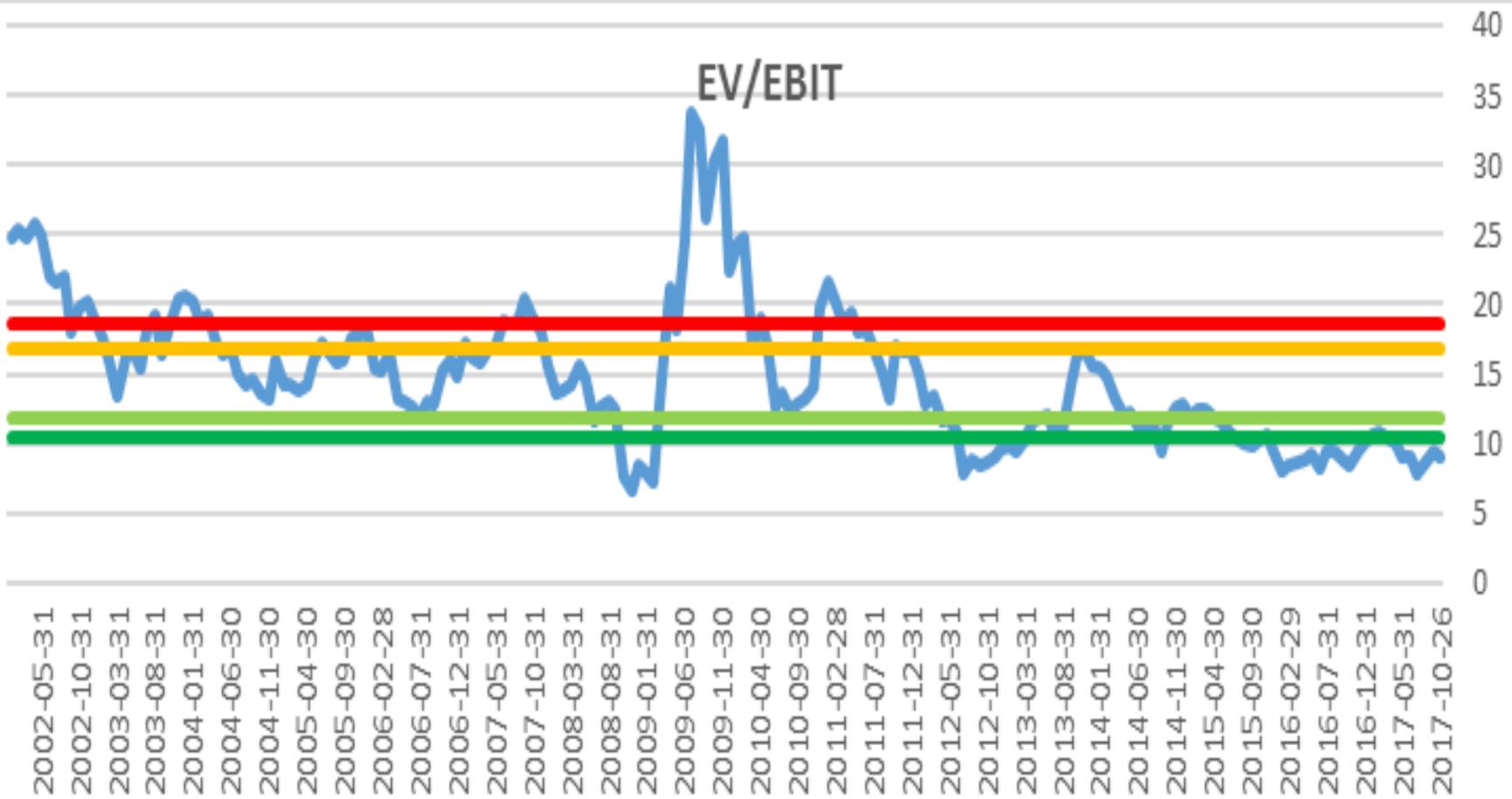


# Price/Free Cashflow



# EV/EBITDA





# Discounted Cashflow Model

# Discounted Cashflow – Default

Earnings Per Share ? : \$ 1.25

Growth Rate In the Next ? : 10 Year **16.4 %**

Terminal Growth Rate ? : 4 %

Years of Terminal Growth ? : 10

Discount Rate ? : 12 %

Business Predictability ? : ★★★★★ ?

**Save Parameters**

DCF Reverse DCF NEW ↵

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**Fair Value ? : 28.05**

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Tangible Book Value ? : \$ 4.92  
 Add to Fair Value

Growth Value ? : 15.55

Terminal Value ? : 12.5

Stock Price: \$ 19.24

Margin Of Safety: **31%**

Annual Rates (per share)	10 yrs	5 yrs	12 months
Revenue Growth (%)	12.30	10.50	8.30
EBITDA Growth (%)	16.70	18.50	7.60
Operating Income Growth (%)	17.80	19.10	6.80
<b>EPS without NRI Growth (%)</b>	<b>16.40</b>	17.80	8.60
Free Cash Flow Growth (%)	17.00	56.10	23.00
Book Value Growth (%)	11.00	13.70	12.10

# Discounted Cashflow – Valueline

Earnings Per Share ? : \$ 1.25

Growth Rate In the Next ? : 10 Years: **11.5 %**

Terminal Growth Rate ? : 4 %

Years of Terminal Growth ? : 10

Discount Rate ? : 12 %

Business Predictability ? : 

DCF Reverse DCF <sup>NEW</sup>

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**Fair Value ? : 20.33**

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Tangible Book Value ? : \$ 4.92  
 Add to Fair Value

Growth Value ? : 12.2

Terminal Value ? : 8.13

Stock Price: \$ 19.24

Margin Of Safety: **5%**

ANNUAL RATES	Past 10 Yrs.	Past 5 Yrs.	Est'd '14-'16 to '20-'22
of change (per sh)			
Sales	11.5%	13.5%	7.0%
"Cash Flow"	12.0%	19.0%	8.5%
<b>Earnings</b>	<b>11.5%</b>	20.0%	8.5%
Dividends	7.0%	8.0%	8.5%
Book Value	9.0%	14.0%	9.0%

# Reverse Discounted Cashflow

Earnings Per Share  : \$

Growth Rate In the Next  :  Years

Terminal Growth Rate  :  %

Years of Terminal Growth  :

Discount Rate  :  %

Business Predictability  :  

DCF Reverse DCF <sup>NEW</sup>

**Growth Rate  :** **10.64%**

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Revenue Growth Rate  :	12.30%(10y)	10.50%(5y)	8.30%(1y)
EBITDA Growth Rate  :	16.70%(10y)	18.50%(5y)	7.60%(1y)
Earnings Growth Rate  :	16.40%(10y)	17.80%(5y)	8.60%(1y)
Free Cash Flow Growth Rate  :	17.00%(10y)	56.10%(5y)	23.00%(1y)
Book Value Growth Rate  :	11.00%(10y)	13.70%(5y)	12.10%(1y)

# Discounted Cashflow – 12 Months

Earnings Per Share ?: \$ 1.25

Growth Rate In the Next ?: 10 Years **8.6**

Terminal Growth Rate ?: 4 %

Years of Terminal Growth ?: 10

Discount Rate ?: 12 %

Business Predictability ?: 

DCF Reverse DCF NEW ←

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**Fair Value ?: 16.84**

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Tangible Book Value ?: \$ 4.92  
 Add to Fair Value

Growth Value ?: 10.59

Terminal Value ?: 6.25

Stock Price: \$ 19.24

Margin Of Safety: **-14%**

Annual Rates (per share)	10 yrs	5 yrs	12 months
Revenue Growth (%)	12.30	10.50	8.30
EBITDA Growth (%)	16.70	18.50	7.60
Operating Income Growth (%)	17.80	19.10	6.80
EPS without NRI Growth (%)	16.40	17.80	<b>8.60</b>
Free Cash Flow Growth (%)	17.00	56.10	
Book Value Growth (%)	11.00	13.70	12.10

# Conscious Investor

# Conscious Investor – 10 Year

	12/07	12/08	12/09	12/10	12/11	12/12	12/13	12/14	12/15	12/16	EPSttm	Years
EPS (\$)	0.425	0.220	0.235	0.490	0.570	0.585	0.775	0.980	1.080	1.190	\$1.260	10
SPS (\$)	2.270	2.233	1.968	2.868	3.553	3.843	4.025	4.659	5.298	5.835		10

HGROWTH	STAAGR®
19.88%	74.81%
12.66%	92.55%

# Conscious Investor – 6 Year

	12/07	12/08	12/09	12/10	12/11	12/12	12/13	12/14	12/15	12/16	EPSttm	Years
EPS (\$)	0.425	0.220	0.235	0.490	0.570	0.585	0.775	0.980	1.080	1.190	\$1.260	6
SPS (\$)	2.270	2.233	1.968	2.868	3.553	3.843	4.025	4.659	5.298	5.835		6

HGROWTH	STAAGR®
17.64%	94.42%
10.81%	98.51%

# Conscious Investor – 3 Year

	12/07	12/08	12/09	12/10	12/11	12/12	12/13	12/14	12/15	12/16	EPSttm	Years
EPS (\$)	0.425	0.220	0.235	0.490	0.570	0.585	0.775	0.980	1.080	1.190	\$1.260	3
SPS (\$)	2.270	2.233	1.968	2.868	3.553	3.843	4.025	4.659	5.298	5.835		3

HGROWTH	STAEGR <sup>®</sup>
10.19%	100.00%
11.91%	99.58%

# Conscious Investor – 6 Year Safety

	Price	EPSttm	P/E Ratio	HGrowth	Payout	STRETD®
Default	18.98	\$1.260	17.23	19.88%	31.8%	23.74%
Safety	18.98	\$1.260	13.00	10.57%	30.0%	11.47%

Cut growth  
by 47%  
Cut P/E by  
25%

# Conscious Investor– 6 Year Kill Scenario

	Price	EPSttm	P/E Ratio	HGrowth	Payout	STRETD®
Default	18.98	\$1.260	17.23	19.88%	31.8%	23.74%
Safety	18.98	\$1.260	13.00	10.57%	30.0%	11.47%
Saved 2017-10-27	18.98	\$1.260	10.00	5.00%	30.0%	3.81%

Cut growth  
by 75%  
Cut P/E by  
42%

# Conscious Investor – 6 Year Kill It Again

	Price	EPSttm	P/E Ratio	HGrowth	Payout	STRETD®
Default	18.98	\$1.260	17.23	19.88%	31.8%	23.74%
Safety	18.98	\$1.260	13.00	10.57%	30.0%	11.47%
Saved 2017-10-27	18.98	\$1.260	10.00	1.00%	30.0%	-0.15%

Cut growth  
by 95%  
Cut P/E by  
42%

Ticker	ROE %
IBM	61.71
PEP	56.96
MCK	49.57
CHRW	37.59
NKE	31.98
TSCO	30.21
MSFT	30.01
PII	23.24
UNP	22.58
DG	22.33
ORCL	18.95
GNTX	18.68
WMT	16.66
NSRGY	15.37
UHAL	14.43
QCOM	12.46
BRK.B	7.74
AIG	-0.33

Ticker	ROIC %
MSFT	97.69
NKE	39.21
MCK	35.33
GNTX	27.60
TSCO	25.11
ORCL	25.05
PII	24.25
PEP	23.47
IBM	22.45
CHRW	22.34
UHAL	15.41
DG	15.34
UNP	14.40
WMT	12.97
QCOM	11.83
NSRGY	11.48
BRK.B	7.07
AIG	0.29

Ticker	PS Ratio
MCK	0.17
WMT	0.55
CHRW	0.81
DG	1.01
TSCO	1.08
AIG	1.30
PII	1.48
IBM	1.86
BRK.B	1.94
UHAL	2.20
PEP	2.53
NKE	2.77
NSRGY	2.82
GNTX	3.19
QCOM	3.55
UNP	4.60
ORCL	5.53
MSFT	6.88

Ticker	PE Ratio
IBM	12.83
GNTX	15.40
TSCO	17.28
MCK	17.63
DG	19.09
UHAL	20.54
QCOM	20.63
UNP	21.11
WMT	21.30
BRK.B	21.32
ORCL	21.89
PEP	22.92
CHRW	23.43
NKE	24.16
NSRGY	27.39
MSFT	29.07
PII	38.24
AIG	1621.25

Ticker	Price-to-Free-Cash-Flow
AIG	N/A
UHAL	N/A
MCK	10.25
IBM	13.10
BRK.B	14.57
WMT	15.46
GNTX	15.58
PII	16.89
ORCL	16.91
MSFT	19.66
TSCO	20.20
QCOM	21.27
NSRGY	23.27
DG	23.57
PEP	23.80
UNP	24.14
CHRW	32.18
NKE	41.10

Ticker	EV-to-EBIT
MCK	5.35
GNTX	9.17
TSCO	11.13
UHAL	11.60
DG	12.72
BRK.B	13.15
UNP	13.61
IBM	14.08
WMT	14.12
ORCL	14.39
CHRW	15.79
QCOM	16.24
PEP	17.04
NKE	19.66
NSRGY	20.96
MSFT	22.10
PII	26.48
AIG	40.21

# Conclusion

- ▶ Monopoly
  - Growing Market Share
- ▶ Switching Costs
- ▶ Niche market
- ▶ Undervalued
- ▶ Growth Opportunities

# Recommendation

- ▶ Market Order at \$19.00



In the business world, the rearview mirror is  
always clearer than the windshield.

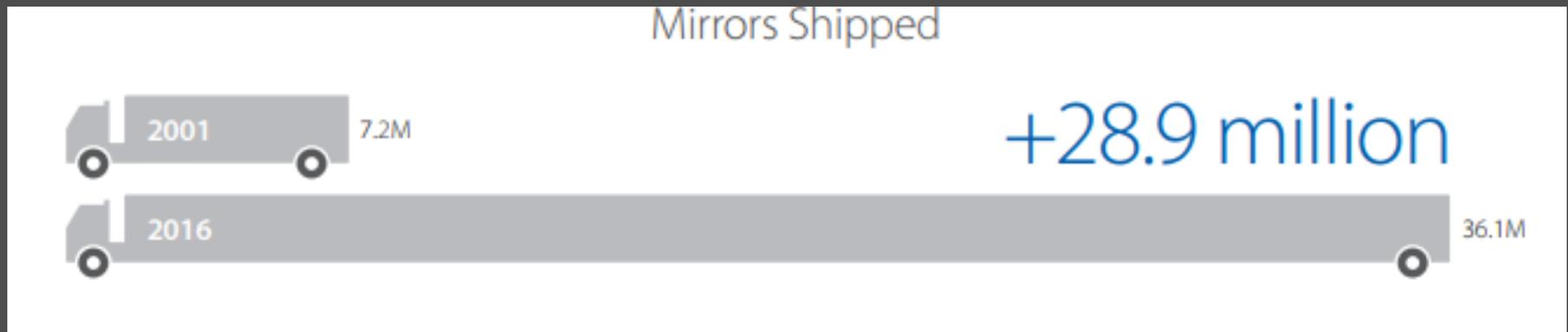
(Warren Buffett)

izquotes.com

# Questions?

- ▶ Softball questions preferred

# Appendix



## Auto-dimming Mirror Shipments (Thousands)


$$26,025 + 10,077 = 36,102$$

(23,517 in 2015 | 11% increase)



(9,468 in 2015 | 6% increase)

(32,986 in 2015 | 9% increase)

Product Type	2016 Shipments (Thousands)	2015 Shipments (Thousands)	% Increase
Rectangular Mirrors	26,025	23,517	11%
Curved Mirrors	10,077	9,468	6%
<b>Total</b>	<b>36,102</b>	<b>32,986</b>	<b>9%</b>



Segmented



Spotter



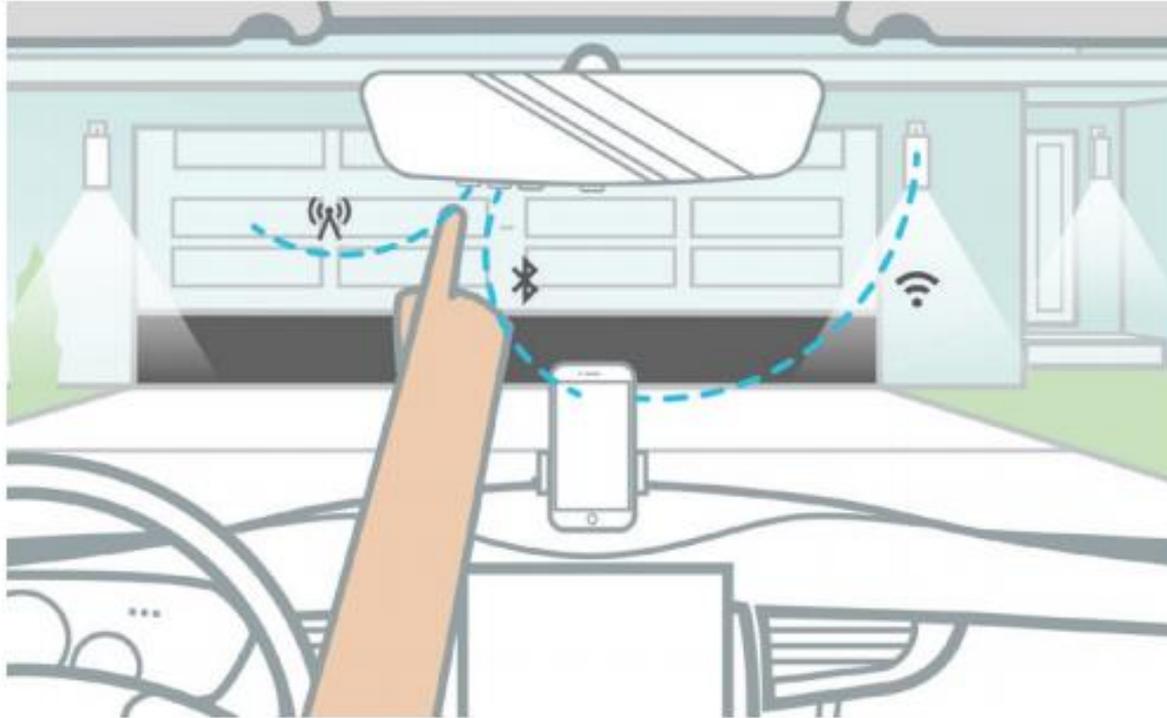
Active Spotter



Stitched



are endless, and the connectivity remains unmatched.



**2018 GUIDANCE:**

over and above 2017 revenue estimates by approximately

**6% – 10%**