

Company Description:

Gentex was founded in 1974 in Zeeland, Michigan, by Fred Bauer. They specialize in the production of auto parts and components. Moreover, they are a company that designs, manufactures, and markets products that use electro-optic technology. They focus on a broad array of technologies and processes to provide the highest quality products in automotive and fire protection industries. Interestingly, Gentex supplies their automotive technology to every major automaker worldwide, making them a leading supplier of automatic-dimming rearview mirrors.

HOLD

Current Price: \$22.37

Target Price: \$24.21

Market Cap: \$6.46B

52 Week Range: \$16.59-24.07

Beta: 1.112

ROE: 20.55%

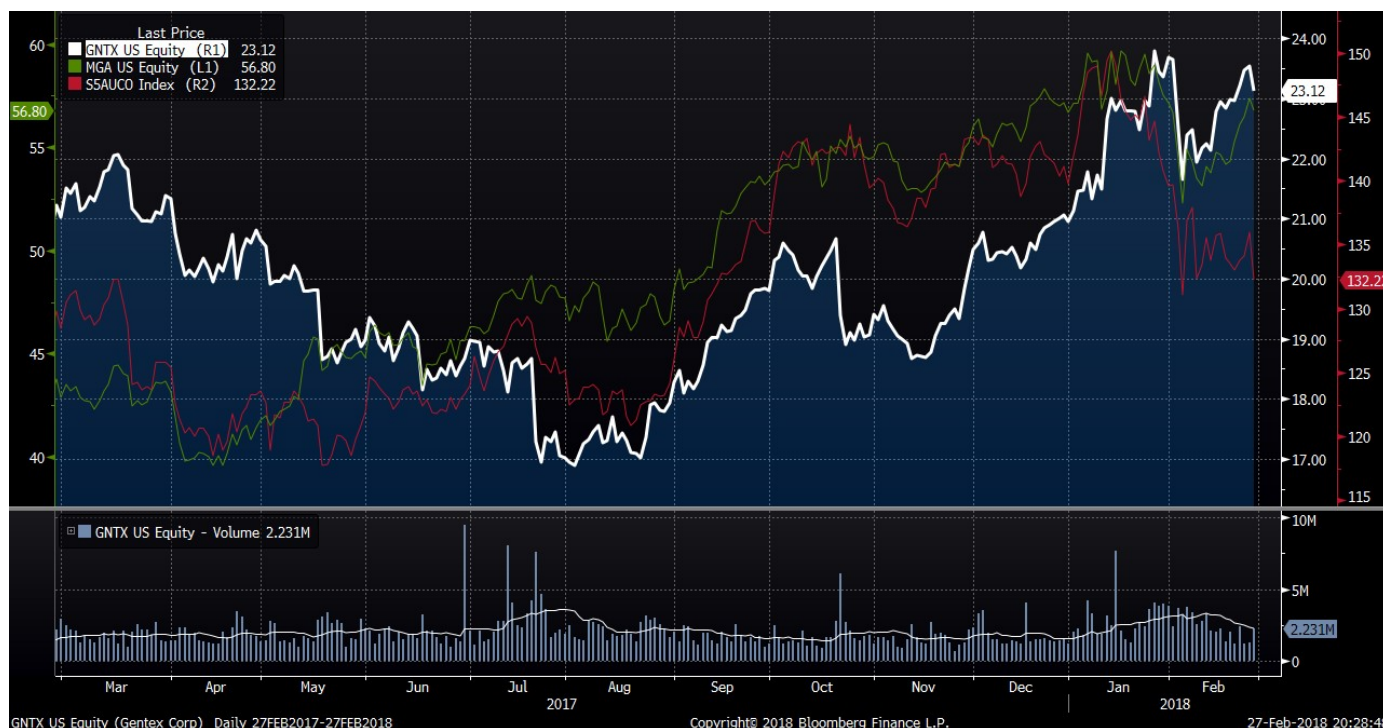
WACC: 10.93%

ROIC: 17.50%

EBITDA Margin: 34.71%

Catalysts:

- **Short Term (within the year):** Earnings announcement 04/20/18. International volume growth and recent tax reform.
- **Mid Term(1-2 years):** Partnership agreement with Fingerprint for vehicle-integrated biometrics systems
- **Long Term(3+):** Increasing company growth and further advances in technology.



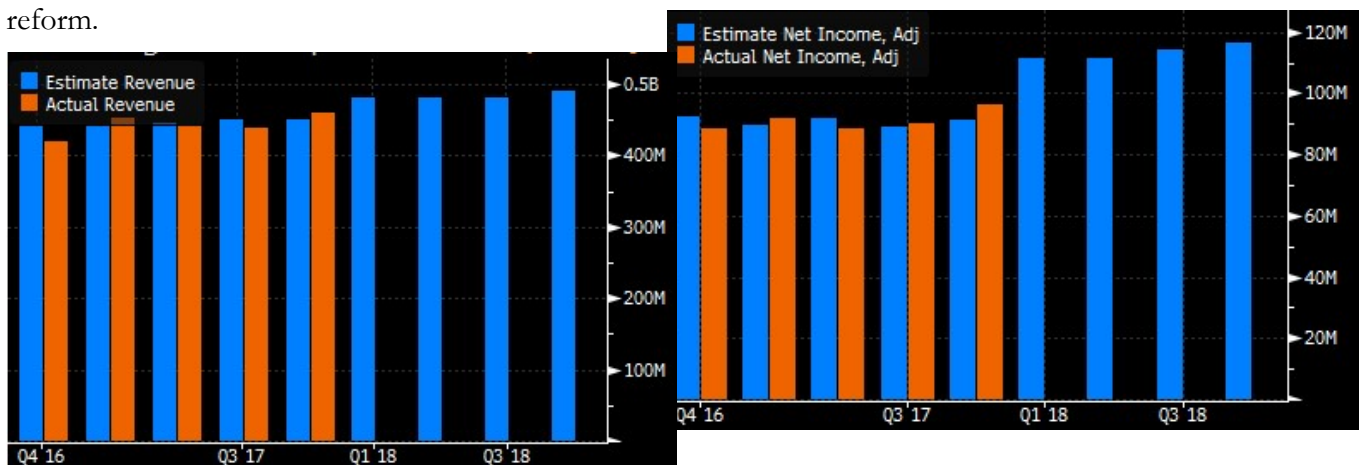
Thesis:

Gentex Corporation is a leading producer of automatic-dimming rearview mirrors in the world and a dominant supplier who has consistently outperformed their competitors because of their ability to produce a product that is low cost with superior performance. Despite predictions discussing a potential flat to light vehicle production, Gentex will continue to grow. Gentex can expect to recognize international volume growth and benefits from recent tax reform in 2017. In addition, Gentex recently came to a partnership agreement for a vehicle integrated biometrics systems, which is projected to have a significant impact on the automotive industry.



Earnings Performance:

Gentex has been profitable over the past couple of years with their revenue increasing 9% quarter over quarter in 2017 and 7% year over year. They recognized a 47% net income increase quarter over quarter and 17% year over year. In addition to consistent increasing sales and net income, recent tax reform benefited the company providing them with a \$37.2 million cash increase for their company. Because of historical increasing sales and net income, as well as a predicted increased volume of auto-mirror dimming shipments to international companies, Gentex will be an attractive company in 2018. Below, the revenue chart illustrates how Gentex has been relatively accurate with what their actual revenue is, compared to its estimated revenue. To the right of the revenue graph, the estimated net income was pretty accurate as well. In the projected year of 2018 for net income, it is forecasted to increase significantly because of the short-term catalysts such as potential optimistic earning announcement news, increased volume to international markets, and recent tax reform.

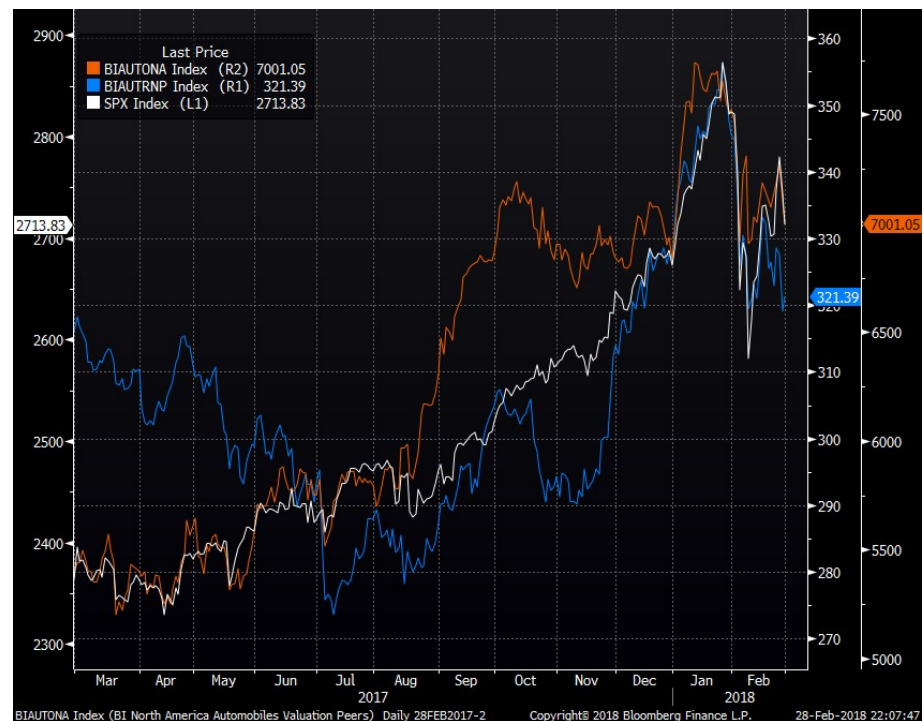


In the next couple of years or so, the recent partnership agreement between Gentex and the world's leading biometric company, Fingerprint, will revolutionize

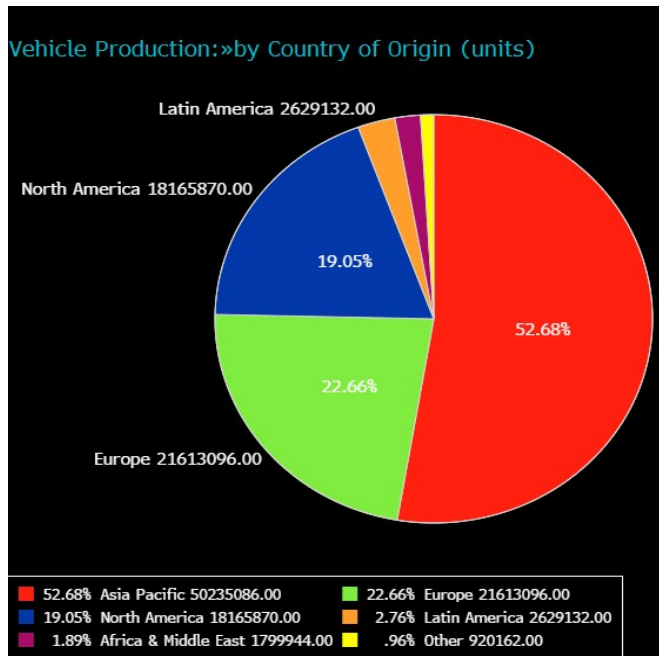
technology in the automotive industry. Both companies strive to create biometric systems that will authenticate the driver, deliver custom security, comfort, and convenience features. People are always fascinated by the newest technology and I believe that this feature will be implemented in many cars in the next couple years or so. Furthermore, this has the potential to increase sales and growth, especially if other car manufacturers recognize the attractiveness and quality of the Gentex's products. The graph above depicts a surge in the company's net income, while revenue continues to grow at a steady rate. The reason for this, is due to the partnership agreement between Fingerprint and Gentex because Fingerprint possesses the necessary technology required to be implemented into Gentex's products. Therefore, Gentex will be saving money on R&D expenses, which is the direct reason for a higher projected net income relative to a forecasted revenue that is not as high.

Industry Outlook:

The auto parts and components industry is directly related to the performance of car manufacturers based on the historical trends over the past year. The majority of Gentex's revenue comes from distributing auto parts to Volkswagen AG, Toyota Motor Corporation, Daimler AG, and Ford Motor Co. These four customers of Gentex contribute to 57% of their overall revenue. The chart to the right illustrates how the automobile index and the auto parts index move relative to the S&P 500 index. Looking at the graph, both the automobile industry and the auto parts











industry move simultaneously and move slightly close to the market. Many of the movements in price for auto parts companies will move based on macroeconomic factors. In recent news, interest rates have increased, which implies that the cost of borrowing will become more expensive. For this reason it is reasonable to believe that the predictions regarding a flat to light increase of car production is possible if interest rates continue to rise. However, Gentex's main customers such as Toyota are expecting record breaking profits reaching up to \$22 billion. Because of this bullish trend, Toyota anticipates an optimistic forecast of their financials and an increase in volume production for the rest of 2018. In addition to Toyota, Volkswagen and Daimler AG, are projected to have a similar 3.6% increase revenue growth for 2018, which will positively affect Gentex. While Ford Motors Co. has had a rough 1st quarter, they are still confident in increasing revenues and net income for the remainder of the year. Due to higher commodity costs and exchange rates, Ford believes this directly affected their first quarter performance. Fortunately, this is a minor setback and they are seeking to spend \$11 billion on electronic technologies, hoping to have 40 electrified vehicles globally in 2022. This of course, is a potential benefit for Gentex. The production of types of cars requires the demand for specific components. In this case, Gentex can expect to have a profitable year when the production of Ford's electrified vehicles begin to be manufactured.



The graph to the left is depicting the vehicle production percentage by geographic area. The significance of this pie chart is to help demonstrate how Gentex's four main customers are part of the largest places of vehicle production growth. Recognizing how the Asia Pacific accounts for approximately 52.68%, Gentex has the opportunity to strike agreements with other major car manufacturers. With their cutting edge technology of the automatic-dimming rearview mirrors and the future innovation of biometrics systems, many companies who are revolutionizing the designs of their cars might have an interest in Gentex's products.

Segment Analysis:

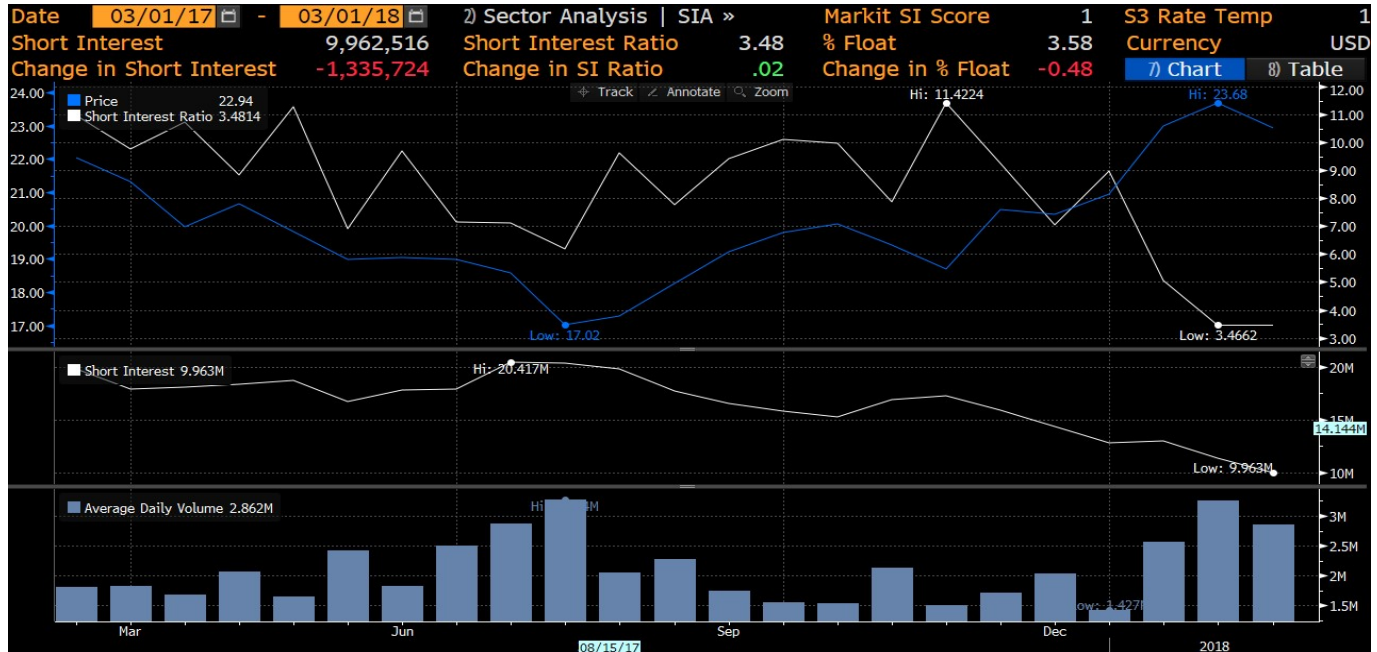
The largest business segment for Gentex is their automotive products, primarily their automatic-dimming rearview mirrors. They are the leading producer of automatic-dimming rearview mirrors in the world, supplying over 90% of the product globally. In addition, on September 27, 2013, Gentex acquired Homelink, which has contributed very positively to the business over the past four years. Homelink is the sole supplier of wireless in-vehicle communication devices and made up 10.3% of the Gentex's total revenue in 2017. The data below displays how basically all of Gentex's revenue comes from their automotive products, specifically their automotive mirrors, which made up 87.7% of their total revenue in 2017. While their business may seem not very diversified, they are the industry leader of their main business segment. They present the ability to create an efficient low cost product with the highest quality. In addition, since Gentex has one individual product generating their primary source of revenue, they are more inclined to put the utmost amount of effort into to it, to make it the best product on the market. Their other business segment is their fire protection market, which consists of several different competitors. With new product innovation, a diversified product line, and the availability of special features will surely help them continue to maintain their competitive position and possibly increase the percentage of operating income it generates to above 2.0%.

In Millions of USD except Per Share		2014 Y		2015 Y		2016 Y		2017 Y	
12 Months Ending		12/31/2014		12/31/2015		12/31/2016		12/31/2017	
	Revenue	1,375.5	100.0%	1,543.6	100.0%	1,678.9	100.0%	1,794.9	100.0%
	■ Automotive Products	1,340.1	97.4%	1,506.9	97.6%	1,639.7	97.7%	1,758.1	98.0%
	■ Automotive Mirrors	1,169.4	85.0%	1,332.8	86.3%	1,457.0	86.8%	1,573.2	87.7%
	■ HomeLink Modules	170.7	12.4%	174.1	11.3%	182.7	10.9%	184.9	10.3%
	■ Fire Protection Products	35.4	2.6%	36.7	2.4%	39.2	2.3%	36.7	2.0%
	Operating Income	398.8	100.0%	458.8	100.0%	511.7	100.0%	523.4	100.0%
	■ Automotive Products	386.8	97.0%	445.1	97.0%	497.8	97.3%	512.9	98.0%
	■ Fire Protection Products	12.1	3.0%	13.7	3.0%	14.0	2.7%	10.5	2.0%

Management/Ownership

The ownership chart for Gentex provides the change in the ownership of the stock over the past year. The majority of the company's shares are held by investment advisors at 85.83%, hedge fund managers at 5.36%, (an increase from 2.78% in the previous year) and pension funds at 2.31%. The most shares held by investment advisors are Blackrock with 8.68% and Vanguard Group with 8.57%. Since both investment advisors maintain a combined 17.25% of the outstanding shares, this shows how Gentex is a "safe" stock because a large percentage is held by several investment advisors. Currently, the company has 97.84% shares outstanding and freely floated.

Top Ownership Type (%)			
54) Ownership Type	02/26/17	Curr	Change
41) Investment Advisor	89.17	85.83	-3.34
42) Hedge Fund Manager	2.78	5.36	+2.58
43) Pension Fund	1.92	2.31	+0.39
44) Individual	2.04	2.12	+0.08
45) Insurance Company	1.49	1.63	+0.14
46) Sovereign Wealth Fund	0.96	1.18	+0.22
47) Bank	1.16	1.06	-0.10
48) Government	0.23	0.19	-0.04
49) Brokerage	0.11	0.14	+0.03



The chart above shows the short interest ratio compared to the price of Gentex's stock. The short interest ratio was at a high of 11.42 and recently hit a low of 3.47 in the past year. In addition, the ratio has moved closely with Gentex until the past couple months. Furthermore, the significance of a high short interest ratio implies that investors predict that the company's stock price is going to decrease. On the other hand, when the short interest is low or decreasing, the investors are anticipating that the stock price will appreciate. The

graph above illustrates that Gentex has become a more valuable stock, according to the rapid drop in the short interest ratio and the increase of Gentex's stock price. There are three factors that could have caused this event to happen. First, heading into the new year of 2018 may have had an impact because suddenly after December 29, 2017 the short interest ratio began to fall. The January effect may have had a hand in this. Secondly, on January 11th, 2018, Gentex announced a long-term partnership agreement with the prominent biometrics company, Fingerprint. The agreement gives Gentex the opportunity to revolutionize the way their products operate and have the ability to change the idea of what car components are capable of. Third, on January 26th, 2018, Gentex announced a very positive fourth quarter and year end 2017 financial results. These three factors occurred in one month. Analyzing the chart, in approximately one month the short interest ratio fell from about 9.00 to 3.47 and the value of the stock priced increased.






On February 27, 2018, Gentex announced three executive promotions. The new President and CEO, Steve Downing, has taken the place of the former CEO, Fred Bauer. Neil Boehm was appointed the Chief Technology Officer and Vice President of Engineering. The third executive promotion was the appointment of Kevin Nash as the Vice President of Finance, CFO, and treasurer. These three executives have more than 50 years of combined Gentex experience. Because of the significant combined experience of the executives, the outlook for Gentex's future is optimistic.

In regard to the compensation of the executives, they have had increasing salaries over the past five years of data. In 2017, the recently retired chairman and CEO, Fred Bauer, earned about \$1.68 million in total compensation. Of this total \$542,195 was received as a salary, \$347,029 was received as a bonus, \$698,184 was received in stock options, \$0 was awarded as stock and \$96,168 came from other types of compensation. In addition, I believed it was also important to compare the salaries growth of the executives with the revenue and net income growth of the company. The purpose of this excel document I created is to understand whether the executives deserve what they are making based off the company's performance. As we can see, the average CAGR of the top highest paid executives sits at 25.24%, while the CAGR for revenue and net income is at 11.25% and 13.42%. Moreover, based off these metrics, it may seem as if the executives are taking a compensation that is higher than the company's performance. However, it is important to note that these executives have a significant amount of experience with Gentex and are a very valuable asset to Gentex. Therefore, I believe the compensation they are receiving is reasonable relative to the company's performance.

Name	Title	2013	2014	2015	2016	2017	CAGR
Bauer, Fred	Founder, Chairman Emeritus & Advisor	\$ 627,000	\$ 709,512	\$ 874,233	\$ 985,392	\$ 1,683,576	28.01%
Downing, Steven R.	President & CEO	\$ 239,081	\$ 337,918	\$ 493,592	\$ 635,433	\$ 790,826	34.86%
Nash, Kevin C.	VP of Finance, CFO, Treasurer & Chief Accounting Officer		\$ 247,293	\$ 338,789	\$ 406,373	\$ 482,671	24.97%
Ryan, Scott	Assistant General Counsel & Corporate Secretary			\$ 336,261	\$ 389,867	\$ 430,340	13.13%
						Avg	25.24%
Revenue Growth	(In millions of dollars)	\$1,171.90	\$1,375.50	\$1,543.60	\$1,678.90	\$ 1,794.90	11.25%
Net income	(In millions of dollars)	\$ 225.10	\$ 288.60	\$ 318.50	\$ 348.00	\$ 372.50	13.42%

Capital Allocation Comparison:

The chart below illustrates the capital structure of Gentex. In the auto parts industry, the average amount of equity being used by a company is about 78%, while the average debt being used by a company is around 22%. Looking at WACC in this industry, the average for a company is approximately 10.93%. Gentex falls right within the company average industry WACC with theirs at 10.90%. However, when compared to their main competitor, they have a higher ROIC at 17.50%, which is higher than Magna's ROIC at 13.75%. In addition, Magna has a higher WACC at 11.20%. Moreover, Gentex is creating more value than its main competitor with a ROIC/WACC at 1.61 compared to Magna's which is 1.23. In addition, Gentex's ROC/WACC also outperforms its industry competitors at 1.16 to 0.89. For Gentex they are using about 1.30% of short-term debt in their capital structure, while the remainder of their company uses 98.70% of equity. In relation to the industry, they are using much less debt and no long-term debt, however, even with less debt they are still performing better than their competitors. Recently, the company repaid \$107.6 million of short-term debt for the calendar year 2017. In addition, the new partnership agreement with Fingerprint saves Gentex money on R&D expenses, therefore using debt for that purpose is not necessary, considering Fingerprint has all the needed technology to innovate Gentex's products. It is also important to bear in mind that Gentex has the opportunity to use a substantial amount of debt to potentially finance any other future projects, since they are currently using so little in their capital structure.

In Millions of USD	2014 Y	2015 Y	2016 Y	2017 Y	Current/LTM
12 Months Ending	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2017
 Market Capitalization	5,333.7	4,664.3	5,665.6	5,871.9	6,232.1
 - Cash & Equivalents	497.4	556.1	723.5	722.3	722.3
 + Preferred & Other	0.0	0.0	0.0	0.0	0.0
 + Total Debt	265.6	233.1	185.6	78.0	78.0
 Enterprise Value	5,101.8	4,341.3	5,127.7	5,227.6	5,587.8

Profitability Comparison:

Historically, Gentex has been expanding and increasing the value of their company. While Magna, their main competitor, has also grown the value of their company, Gentex continues to outperform Magna. When comparing both companies, their revenue growth is somewhat similar, however, the deciding factor which separates Gentex from Magna is their ability to create low cost products with the highest quality. If we take a look at Gentex's gross profit margin and EBITDA margin, it is double and triple that of Magna's in 2017. Gentex had also had a net income margin which was 4x that of Magna's net income margin. Gentex's EBITDA is projected to increase to 38.8% in 2018 with Magna trailing behind at only a 10.5% EBITDA margin. In addition, the EPS for Gentex projected for 2018 is expected to be significantly higher at 25.9, which is greater than its competitor and from the previous year. Due to a high forecasted increase in EPS, investors can expect higher dividends. This directly relates back to the short interest chart as mentioned earlier. With a decreasing short interest ratio and a projected surging EPS up to 25.9, I am confident that Gentex is a valuable stock.

GENTEX

Revenue, Adj	1,375.5	1,543.6	1,678.9	1,794.9	1,794.9	1,923.6	2,071.9
Growth %, YoY	17.4	12.2	8.8	6.9	6.9	7.2	7.7
Gross Profit, Adj	538.9	603.8	668.5	694.5	694.5	743.8	802.9
Margin %	39.2	39.1	39.8	38.7	38.7	38.7	38.8
EBITDA, Adj	476.2	539.4	601.3	627.3	627.5	670.2	721.9
Margin %	34.6	34.9	35.8	35.0	35.0	34.8	34.8
Net Income, Adj	288.6	318.5	348.0	372.5	366.3	451.4	487.9
Margin %	21.0	20.6	20.7	20.8	20.4	23.5	23.5
EPS, Adj	0.98	1.08	1.19	1.29	1.27	1.63	1.79
Growth %, YoY	25.3	10.2	10.3	8.4	4.9	25.9	10.2

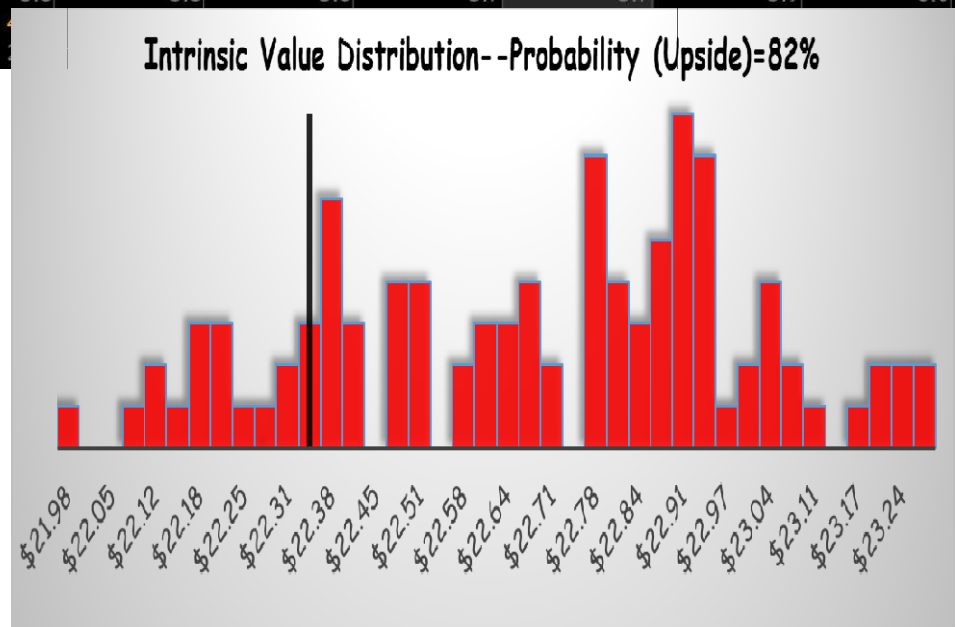
MAGNA

Sensitivity Forecast:

For the sensitivity forecast, Gentex is sensitive to movements in the automobile industry. Based off the historical operating expenses to revenue, which was 75.53%, I added in synergies and projected the new percentage to equal about 72%. In addition, with new projects underway, I left the CAPEX equal to the

Revenue, Adj	34,403.0	32,134.0	36,445.0	38,946.0	38,946.0	40,635.6	42,488.6
Growth %, YoY	-1.2	-6.6	13.4	6.9	6.9	4.3	4.6
Gross Profit, Adj	4,935.0	4,575.0	5,322.0	5,688.0	5,688.0	5,940.9	6,394.5
Margin %	14.3	14.2	14.6	14.6	14.6	14.6	15.1
EBITDA, Adj	3,455.0	3,237.0	3,856.0	4,020.0	4,115.0	4,339.7	4,446.2
Margin %	10.0	10.1	10.6	10.3	10.6	10.7	10.5
Net Income, Adj	1,997.0	1,851.0	2,057.0	2,222.0	2,220.0	2,379.1	2,552.7
Margin %	5.8	5.8	5.6	5.7	5.7	5.9	6.0
EPS, Adj							
Growth %, YoY							

historical average. As for the R&D expenses, since Gentex struck a long-term partnership agreement with Fingerprint, the assumption for the cost of R&D expenses are less than the historical average. While it is less, Gentex still needs to assimilate the new technology into their products, which is why I left a 6.00% R&D expenses to revenue. I calculated that Gentex would only need a 3.9% revenue increase to reach their target price of \$24.21. This was my base case.



As for my optimistic scenario, if revenue were to go up to 12% with operating costs decreasing 5%, then the target price has the possibility to reach \$28.53. Again, however, this is a very optimistic scenario.

In a pessimistic scenario, if revenue were to decrease by 5%, and operating costs were to increase by 10%, then the target price would equal \$20.48. This was my pessimistic scenario.

Conclusion:

Gentex's stock price is very sensitive to macroeconomic factors in the automobile industry. While they may seem to be a valuable company, there are factors beyond their control which can either positively or negatively affect the company. For example, in the past couple of months, interest rates have been increasing, which is something that would adversely affect Gentex, if they were to continue to increase. However, with a low short interest ratio, a new long-term partnership agreement with Fingerprint and an increasing demand for their product, I am confident that the company will perform well even if there was a downturn in the economy. I am requesting a HOLD for Gentex's stock. I believe Gentex was a cheap stock over the summer of 2017 when it was trading around \$16-\$17 in July to August and in November of 2017 when it was trading around \$18.71. Moreover, I do believe the company has value to it and its stock is valuable.

Gentex Corporation (gntx)

CENTER FOR GLOBAL FINANCIAL STUDIES

NEUTRAL

Analysis by Matt Lucarelli
3/11/2018

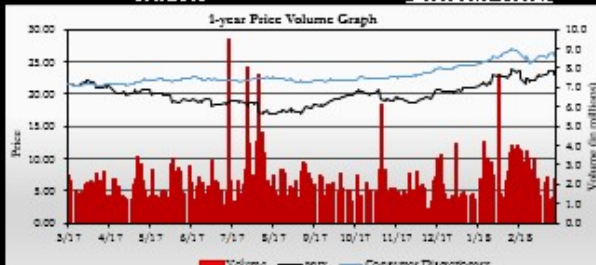
Current Price:
Dividend Yield:

\$22.37
1.8%

Intrinsic Value
Target Price:

\$22.62
\$24.12

Target 1 year Return: 9.58%
Probability of Price Increase: 91%



Description
Gentex Corporation provides automatic-dimming and non-dimming rearview mirrors, and electronics for the automotive industry; dimmable aircraft windows for the aviation industry; and commercial make alarm and signaling devices for the fire protection industry worldwide.

General Information
Sector: Consumer Discretionary
Industry: Auto Components
List Guidance: February 12, 2018
Next earnings date: April 20, 2018

Market Assumptions
Estimated Equity Risk Premium: 6.78%
Effective Tax rate: 25%

Market Data	
Market Capitalization	\$6,138.80
Daily volume (mil)	3.69
Shares outstanding (mil)	274.42
Diluted shares outstanding (mil)	288.23
% shares held by institutions	109%
% shares held by investment managers	74%
% shares held by hedge funds	4%
% shares held by insiders	2.18%
Short interest	3.63%
Days to cover short interest	4.21
52-week high	\$24.07
52-week low	\$16.59
Volatility	23.42%

Quarter ending

12/31/2016	-4.36%
3/31/2017	2.59%
6/30/2017	-1.35%
9/30/2017	-3.20%
12/31/2017	1.55%
Mean	-0.95%
Standard error	1.0%

Part Earning Surprises

Revenue	-4.36%
EBITDA	-7.95%
	1.52%
	-8.54%
	-3.26%
	0.05%
	-3.64%
	4.9%

EBITDA

12/31/2016	-7.95%
3/31/2017	1.52%
6/30/2017	-8.54%
9/30/2017	-3.26%
12/31/2017	0.05%
Mean	-3.64%
Standard error	4.9%

Market and Credit Scores

Recommendation (STARS) Value	-4
Recommendation (STARS) Description	Buy
Quality Ranking Value	A+
Quality Ranking Description	Highest
Short Score	-1
Market Signal Probability of Default % (Non-Rating)	-0.037%
Credit Model Score (Non-Rating)	-0

Industry and Segment Information

LTM Revenue by Geographic Segment	LTM Revenue by Business Segments
United States--32%	Automotive Products--98%
Germany--20%	Other--2%
Japan--10%	
Other Countries--36%	
Unallocated Other--2%	

Management

Dauning, Steven
Bauer, Fred
Nash, Kevin
Ryan, Scott
Matthews, Joseph
Baehm, Neil

Partitions

President & CEO
Founder, Chairman Emeritus & Advisor
VP of Finance, CFO, Treasurer & Chief Account
Assistant General Counsel & Corporate Sec
Vice President of Purchasing
CTO & VP of Engineering

Total Compensation Growth

13.74% per annum over 3y
1.33% per annum over 5y
2.36% per annum over 2y
12.91% per annum over 1y
-1.57% per annum over 2y

Stock Price Growth During Tenure

5.88% per annum over 3y
-5.17% per annum over 5y
6.46% per annum over 2y
25.23% per annum over 1y
6.46% per annum over 2y

Profitability

Return on Capital (GAAP)	20.6%
Operating Margin	25%
Revenue/Capital (GAAP)	0.84
ROE (GAAP)	19.0%
Net margin	23.0%
Revenue/Book Value (GAAP)	0.83

qntx (LTM)

20.6%
25%
0.84
19.0%
23.0%
0.83

qntx Historical

15.45%
18.98%
0.81
15.0%
18.5%
0.81

Peerz' Median (LTM)

8.20%
8.23%
1.00
10.2%
4.7%
2.20

Invested Funds

Carb/Capital	31.2%
NWOC/Capital	12.5%
Operating Assets/Capital	43.5%
Goodwill/Capital	12.8%

qntx (LTM)

31.2%
12.5%
43.5%
12.8%

qntx Historical

32.5%
12.3%
45.7%
9.5%

Peerz' Median (LTM)

12.3%
14.8%
62.7%
10.2%

Capital Structure

Total Debt/Market Capitalization	0.03
Cost of Debt	3.3%
CGFS Rating (F=care, Z=care, and default Probability)	AA
WACC	9.6%

qntx (LTM)

0.03
3.3%
AA
9.6%

qntx Historical

0.08
2.7%
9.5%

Peerz' Median (LTM)

0.35
4.0%
9.1%

Valuation

Forecast Assumptions

Revenue Growth CAGR	4%
Average Operating Margin	28%
Average Net Margin	19%
Growth in Capital CAGR	7%
Growth in Claims CAGR	0%
Average Return on Capital	10%
Average Return on Equity	11%
Average Cost of Capital	10%
Average Cost of Equity	10%

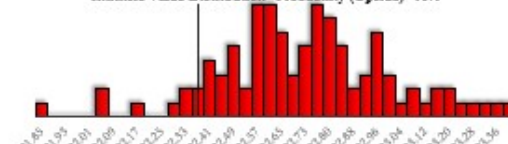
Explicit Period (7 years)

4%
28%
19%
7%
0%
10%
11%
10%
10%

Continuing Period

2%
28%
18%
2%
2%
9%
9%
10%
10%

Intrinsic Value Distribution--Probability (Upside)=91%



Sensitivity Attribution Analysis

