

October, 25, 2017

Gentex (GNTX)

Timothy Cousin

Sector: Consumer Discretionary

Industry: Auto Components

Current Price: \$19.08

Target Price: \$20.99

Company Description: Gentex is a company that prides themselves on the ability to design, manufacture, and market products that use electro-optic technology. The company can be broken up into two main segments such as fire protection and rearview mirrors. The focus of Gentex is they are able to create auto-dimming rearview mirrors for the automotive market. The three main companies that Gentex works with are Toyota, General Motors, and Volkswagen. Gentex is a company that also has some experience in the aircraft industry, creating windows that found on commercial aircrafts.

BUY

Current Price:	\$19.08
Target Price:	\$20.99
Market Cap:	5.41B
52 Week Range:	16.06-22.12
ROE	18.85%
Debt/Equity	9.7%
Return on Assets	15.8%



Thesis: Gentex is a company that has had the opportunity to create revenue in a number of different ways in the past couple of years. Gentex prides themselves on the ability to make a profit in three main segments. Those segments include the car industry, fire protection, and aircrafts. Gentex is expected to have a growth between six and ten percent this upcoming year, and would be a great addition to our portfolio.

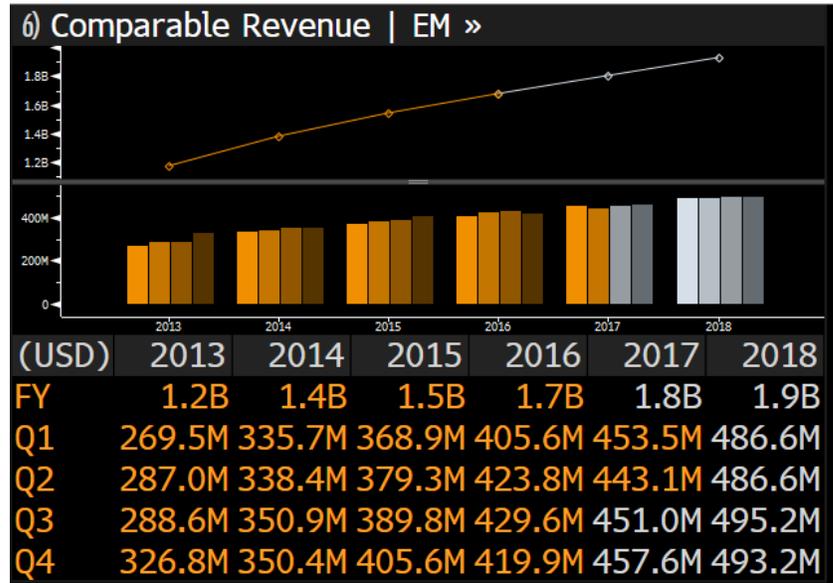
Catalysts:

- Short Term (within the year): Car companies always trying to come up with advancements in car safety.
- Mid Term (1-2 years): People always having a need to wanting the newest piece of technology.
- Long Term (3+): Merges and Acquisitions that Gentex made over the last couple of years.

Earnings Performance:

Gentex is a company that has been on the rise for the past couple of years. The company receives most of their revenues from its top customer, which happens to be Volkswagen. Volkswagen accounts for roughly 14% of the company's sales.

Throughout the years, Gentex has been able to achieve a strong growth. Revenue increased 17% from \$223 million in 2013 to \$289 million in 2014. This increase in revenue has to do with the fact of Gentex being so innovative using top technology, and always trying to differentiate themselves from their competitors.



The reason for this growth in 2014 has to do with sales from automotive products. The main reason for the increase of net sales had to do with the acquisition of HomeLink. During the time from 2014 and on, there has been an 11% increase in auto-dimming mirror shipments, a 54% increase in aircraft window sales, and fire and protection increased by 4%.

Gentex aspires for the upcoming year in the sense that they predict to see a growth between six and ten percent. According to the graph, Gentex has the opportunity to see an increase in 2018 in every quarter. Gentex is able to succeed due to the fact they are able to generate revenue from three segments. Even though they receive most of their revenue from automotive, it is beneficial from them to generate revenue from aerospace and fire protection.

Industry Overview:

Gentex is a company that has 98% of their net sales from customers within the automotive industry. The automotive industry has been impacted by the different levels of economic activity. The economic activity as of right now has been stable, but there are some points of uncertainty. The areas that seem to provide some uncertainty happen abroad in the Japan and Korean markets. If automotive customers and suppliers were to experience any type of plant shut down, work stoppages, or any other type of distraction would cause a delay in shipments to customers.



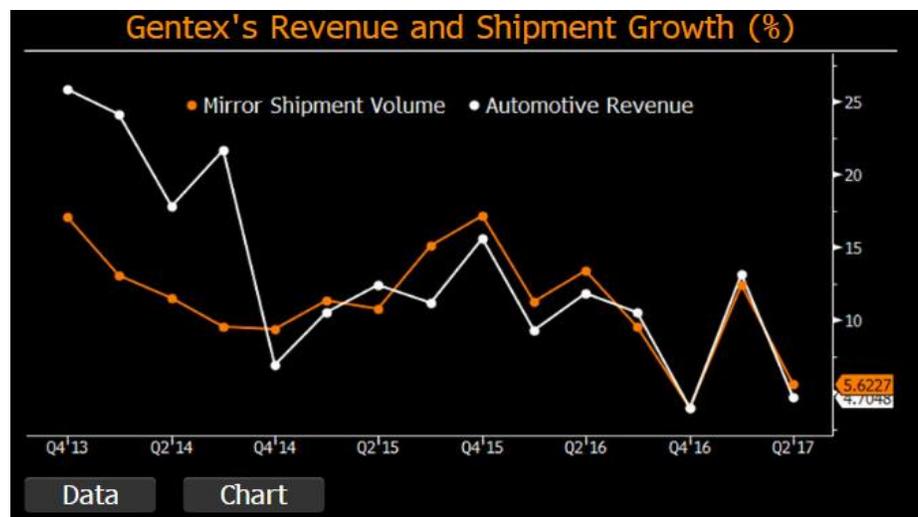
There are times when the automotive industry tries to implement new programs to increase efficiency, but may cause delays at times. They delays may come from thinking one program may work, but then finding a problem with it. This is difficult to try to make forecasts about predicted sales and costs.

The automotive industry has a large number of key customers that they rely on yearly. Gentex relies on for 10% or more of annual net sales in 2016 three main customers. The three main companies that contribute to this ten percent includes Volkswagen, Toyota, and General Motors. In sum, the automotive industry remains stable.

Asia's Driving Growth:

Gentex has been able to see success when it comes to doing business in Asia. This has to do with the fact that there is a growing demand for higher-value car mirror systems. This increase for demand has been able to drive Gentex's revenue growth. Asia has been looking for a company that has the ability to create high end technology when it comes to the mirror market. Gentex took full opportunity of that, and caused them to experience a 40% increase in revenue since 2009.

As you can tell from the graph, starting in quarter four in 2013, Asia began to take a hit in the automotive revenue. As the automotive revenue for Gentex in Asia began to fall, the mirror shipment began to increase at a steady pace. This had to do with the fact that Asia was more concerned with the reaping the benefits of Gentex's innovation in creating mirrors versus automotive revenue.

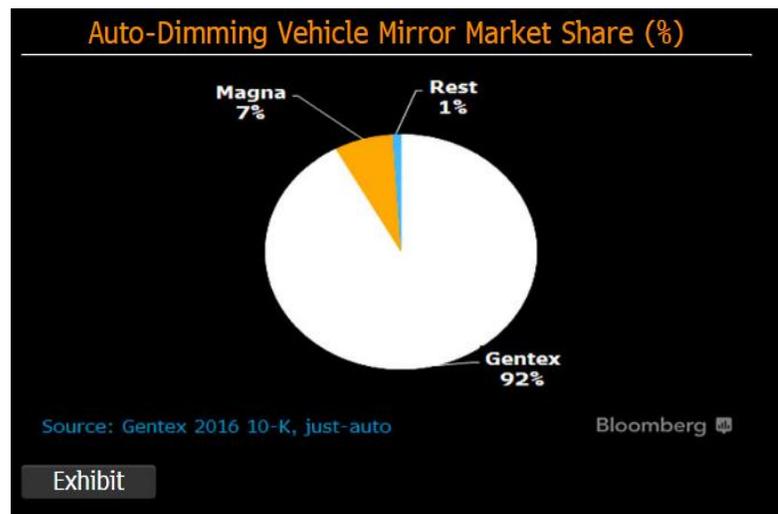


After a while, the mirror shipment began to decrease, but at the end of the second quarter, they were still making more revenue off mirrors, rather than automotive parts. This had to do with Gentex's new release of their full body mirrors. People in Asia are trying to keep up with the new and upcoming technology, because automotive parts lacked in the second quarter but picked up once the new mirror came out. People in Asia may not have needed as many automotive parts, but wanted to make sure they did not fall behind in the mirror segment.

Gentex's Strong Mirror Market:

Gentex is a company that has dominated the market share when it comes to the mirror market. Gentex has dominated in the sense that they hold 92% of the automatic vehicle mirror markets. Their next closest competitor is Magna who only controls around 7% of the market share.

Gentex owning 92% of the market share is important to contributing to the company's strong margins, and the sales growth. This is crucial in the sense that 87% of its revenue in 2016 had to pertain to mirrors.



Gentex having the opportunity to own 92% of the market share is important in the sense that they are competing at a higher level than their main competition in Magna. The only other threat that Gentex has when it comes to the market share are domestic Chinese companies.

Growth Strategy:

When it comes to a growth strategy, Gentex believes it is important for them to start internally. Gentex invested in a lot of money into creating a new facility. The new facility is adjacent to their headquarters in Michigan. Not only are they trying to build a new complex, they are also making renovations and upgrades to their headquarters as well. This will give the company a great opportunity to have a high end facility, and give them the tools necessary to be innovative.

Having the ability to create a brand new building, and renovations to their headquarters, supports the claim from Gentex that they will grow from six to ten percent this upcoming year. Gentex is a company that will see growth in the aspect of being able to produce the best camera that will be able to show a rear view while backing up. This is crucial for the company in the sense that drivers always want top end technology so they

GENTEX CORPORATION

are safe when it comes to taking the road.

Mergers and Acquisitions:

Gentex saw a couple of great opportunities that they took advantage of in 2013 and 2014 that paid off for them in the end. In 2013, Gentex saw success in the sense of acquiring a company called HomeLink. This was huge for Gentex in the sense that HomeLink is a company focuses on creating wireless communication products. The type of products that HomeLink makes are products that allow drivers to remotely activate garage door openers, the lightening in their home, and security systems. This is a great acquisition for Gentex in the sense that not only will it cause them to add a different aspect to their company, and people look forward to advancements in technology.

Just recently in 2014, Gentex made another acquisition of Helmet Integrated Systems. This acquisition was a positive for Gentex in the sense that it allowed the company to test waters internationally. Helmet is located in the United Kingdom, and provides helmets, communication equipment, and respiratory protection for everyday use. This is a great opportunity for Gentex to not only grow, but to try to test other markets to try and generate even more revenue.

Management/Ownership:

Gentex has a strong management team that led by Fred Bauer. Mr. Bauer is the CEO of the company at the time and has been with the company since 1974. Steve Downing is the chief operation officer, and joined Gentex in 2002. He served as an analyst since 2002 and has balanced many different hats while working at the company, such as being analysts for a number of years. Finally, Kevin Nash is the vice president of accounting at Gentex. He decided to join Gentex in 1999 as a senior account and has been with the company ever since. The reason Gentex is successful has to do with the fact that not only is the management team a veteran group, but also Fred Bauer has only taken a 1.33% growth on his compensation over the past 5 years. Gentex believes it is important to their shareholders to see an increase in stock price, before paying their top people.

When it comes to ownership, in 2015 Gentex has had the opportunity to pay over 101 million dollars in dividends. When it comes to ownership of the shares, the United States has a strong ownership mounting to

82.42%. The company is able to expand in foreign territory reaching Canada at 5.45% and Britain at 4.49%. This is a strong company based out of the United States, but also has interest in domestic land.

Top Geographic Ownership (%)		
53) Geographic	10/22/17	Curr
31) UNITED STATES	82.42	82.45
32) CANADA	5.45	5.44
33) BRITAIN	4.49	4.48
34) Unknown	2.28	2.27

Conclusion:

Gentex is a strong company in the sense that they are led by three people who have been in the company for multiple years. They are a veteran group in the sense that they care about their shareholders, and do anything they can to drive the price of the stock.

Gentex is a company that is based on revenue, and have many projects coming up in the near future that will cause the value of the company to go up. They are a company that has a smart growth strategy in the sense that they are starting internally and then expanding outward.

Gentex having the ability to acquire two companies in the sense that it will only increase their revenue streams. HomeLink was a win in the company in the sense that they are a company that is heavy on trying to find ways to be innovative in the automotive industry. This is important to Gentex in the sense they are always trying to find way in the automotive industry. Their second acquisition in Helmet is important because they are a company internationally. This is a great way for Gentex to try to get experience internationally.

Overall, Gentex is a company that is always trying to find innovative ways to increase revenue. Gentex has the ability to come out with type of the line products, their acquisitions, and understanding the importance of building up their company internally. Gentex would be a great company to add to our portfolio.

Gentex Corporation (GNTX)

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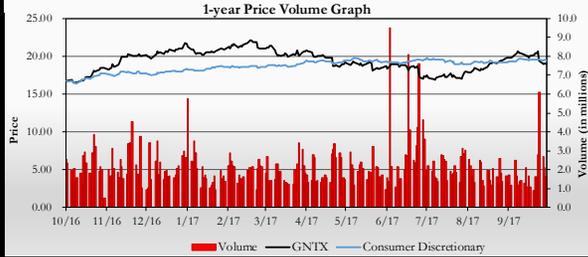
NEUTRAL

Analysis by Timothy Cousin
10/27/2017

Current Price: **\$19.08**
Dividend Yield: **1.8%**

Intrinsic Value: **\$15.48**
Target Price: **\$20.99**

Target 1 year Return: 11.79%
Probability of Price Increase: 90.5%

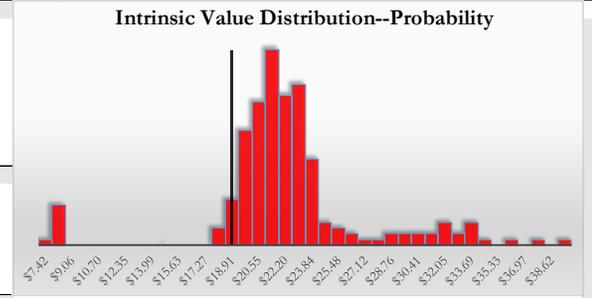


Description	
Gentex Corporation designs, develops, manufactures, and markets automatic-dimming rearview mirrors and electronics for the automotive industry; dimmable aircraft windows for the aviation industry; and commercial smoke alarms and signaling devices for the fire protection industry worldwide.	
General Information	
Sector	Consumer Discretionary
Industry	Auto Components
Last Guidance	November 3, 2015
Next earnings date	January 27, 2018
Estimated Country Risk Premium	7.52%
Effective Tax rate	24%
Effective Operating Tax rate	24%

Market Data	
Market Capitalization	\$5,493.97
Daily volume (mil)	0.89
Shares outstanding (mil)	285.55
Diluted shares outstanding (mil)	289.60
% shares held by institutions	83%
% shares held by investments Managers	73%
% shares held by hedge funds	2%
% shares held by insiders	2.05%
Short interest	5.35%
Days to cover short interest	7.92
52 week high	\$22.12
52-week low	\$16.06
Volatility	23.46%

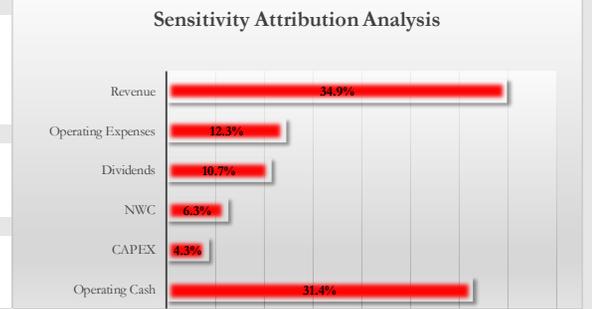
Past Earning Surprises	
Quarter ending	Revenue
9/30/2016	0.40%
12/31/2016	-4.36%
3/31/2017	2.59%
6/30/2017	-1.35%
9/30/2017	-3.20%
Mean	-1.18%
Standard error	1.2%

Peers	
Tower International, Inc.	2.79%
Superior Industries International, Inc.	-7.13%
Gentherm Incorporated	1.26%
BorgWarner Inc.	-6.86%
Visteon Corporation	-2.09%
Standard Motor Products, Inc.	-2.40%
American Axle & Manufacturing Holdings, Inc.	2.0%
Dana Incorporated	



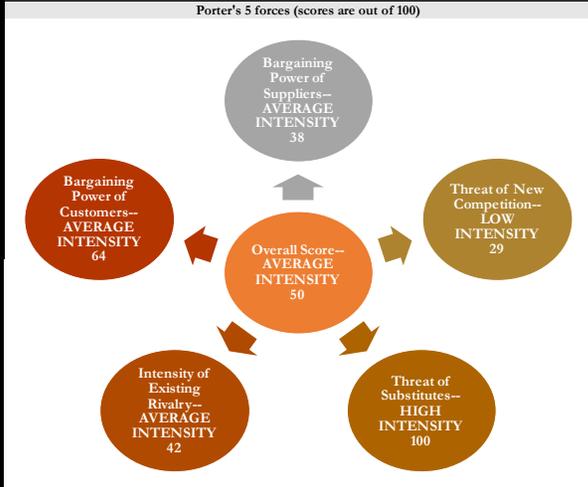
Management		Position	
Bauer, Fred	Founder, Executive Chairman		
Downing, Steven	President, COO, Interim CFO		
Nash, Kevin	Chief Accounting Officer and Assistant General Counsel an		
Ryan, Scott	Vice President of Purchasing		
Matthews, Joseph	Vice President of Sales		
Chiodo, Matt			

Total compensations growth		Total return to shareholders	
1.33% per annum over 5y		-5.17% per annum over 5y	
13.79% per annum over 3y		5.88% per annum over 3y	
2.36% per annum over 2y		6.46% per annum over 2y	
12.91% per annum over 1y		25.23% per annum over 1y	
-1.57% per annum over 2y		6.46% per annum over 2y	
N/M		N/M	



Profitability		GNTX (LTM)		GNTX (5 years historical average)		Peers' Median (LTM)	
Return on Capital (GAAP)	0.7%	15.52%	15.52%	11.19%	11.19%	11.19%	11.19%
Operating Margin	0%	14.38%	14.38%	4.71%	4.71%	4.71%	4.71%
Revenue/Capital (GAAP)	1.52	1.08	1.08	2.38	2.38	2.38	2.38
ROE (GAAP)	0.5%	15.2%	15.2%	20.9%	20.9%	20.9%	20.9%
Net margin	0.6%	18.7%	18.7%	5.9%	5.9%	5.9%	5.9%
Revenue/Book Value (GAAP)	0.87	0.81	0.81	3.52	3.52	3.52	3.52

Invested Funds		GNTX (LTM)		GNTX (5 years historical average)		Peers' Median (LTM)	
Cash/Capital	32.2%	32.2%	32.2%	25.0%	25.0%	25.0%	25.0%
NWC/Capital	12.8%	12.7%	12.7%	13.3%	13.3%	13.3%	13.3%
Operating Assets/Capital	41.4%	45.2%	45.2%	50.2%	50.2%	50.2%	50.2%
Goodwill/Capital	13.6%	13.5%	13.5%	11.6%	11.6%	11.6%	11.6%



Period		Revenue Growth Forecast	
Base Year	5%		
9/30/2018	7%		
9/30/2019	7%		
9/30/2020	10%		
9/30/2021	3%		
9/30/2022	3%		
9/30/2023	2%		
9/30/2024	2%		
9/30/2025	2%		
9/30/2026	2%		
9/30/2027	2%		
Continuing Period	2%		

Valuation		NOPAT Margin Forecast		Revenue to Capital Forecast	
Base Year	25.3%	0.98			
9/30/2018	21.6%	1.09			
9/30/2019	22.5%	1.16			
9/30/2020	23.1%	1.28			
9/30/2021	21.5%	1.28			
9/30/2022	20.0%	1.32			
9/30/2023	18.5%	1.37			
9/30/2024	17.8%	1.41			
9/30/2025	18.4%	1.43			
9/30/2026	16.9%	1.40			
9/30/2027	15.4%	1.37			
Continuing Period	13.9%	1.34			

Period		Return on Invested Capital Forecast		WACC Forecast		Price per share Forecast	
Base Year	24.8%	11.0%	\$14.51				
9/30/2018	23.4%	7.5%	\$16.48				
9/30/2019	26.0%	11.0%	\$17.94				
9/30/2020	29.5%	11.0%	\$19.41				
9/30/2021	27.4%	10.8%	\$20.86				
9/30/2022	26.5%	10.5%	\$22.25				
9/30/2023	25.3%	17.2%	\$24.43				
9/30/2024	25.1%	10.1%	\$25.82				
9/30/2025	26.3%	11.9%	\$27.43				
9/30/2026	23.6%	11.7%	\$29.05				
9/30/2027	21.1%	9.9%	\$30.50				
Continuing Period	18.6%	10.9%					