



# DSR STOCK CARD

10/14/2022

## GENTEX (GNTX)

### Business Model

Gentex was founded in 1974 to produce smoke-detection equipment. The company sold its first glare-control interior mirror in 1982 and its first model using electrochromic technology in 1987. Automotive revenue makes up about 97% of total revenue (in 2021), and the company is continually developing new applications to stay ahead of technological advancements. Sales from 2021 totaled approximately \$1.73 billion, with 41.8 million mirrors shipped. The company is based in Zeeland, Michigan.

### The Company in a Nutshell

- Gentex dominates a growing market that is currently struggling.
- GNTX expands through automotive electronics, dimmable aircraft windows, and fire protection products.
- Growth will occur organically as car manufacturers include this type of mirror in their various models.

### Investment Thesis

Gentex is the industry leader and its products are on their way to becoming industry standards. GNTX also possesses a stellar balance sheet with virtually no debt and many of patents. It can weather any economic storm and could be an interesting candidate for a merger. GNTX also benefits from being the first to offer its top-of-the-line products, leading to higher margins for early adoption. We appreciate the company's effort to diversify its business model and not remain a one-hit-wonder. The company is expanding its product offering to include toll modules, airplane windows, and, in the long-term, healthcare applications such as lighting for operating rooms and iris identification & smoking detection for the interior of autonomous vehicle fleets. GNTX is likely to outperform auto supplier peers due to its industry-leading margins, share repurchases, and strong balance sheet (\$280M of net cash at the end of Q2). GNTX is a lower beta stock within its industry.

## VALUATION

Dividend Growth Rate Years 1-10: 4.00%

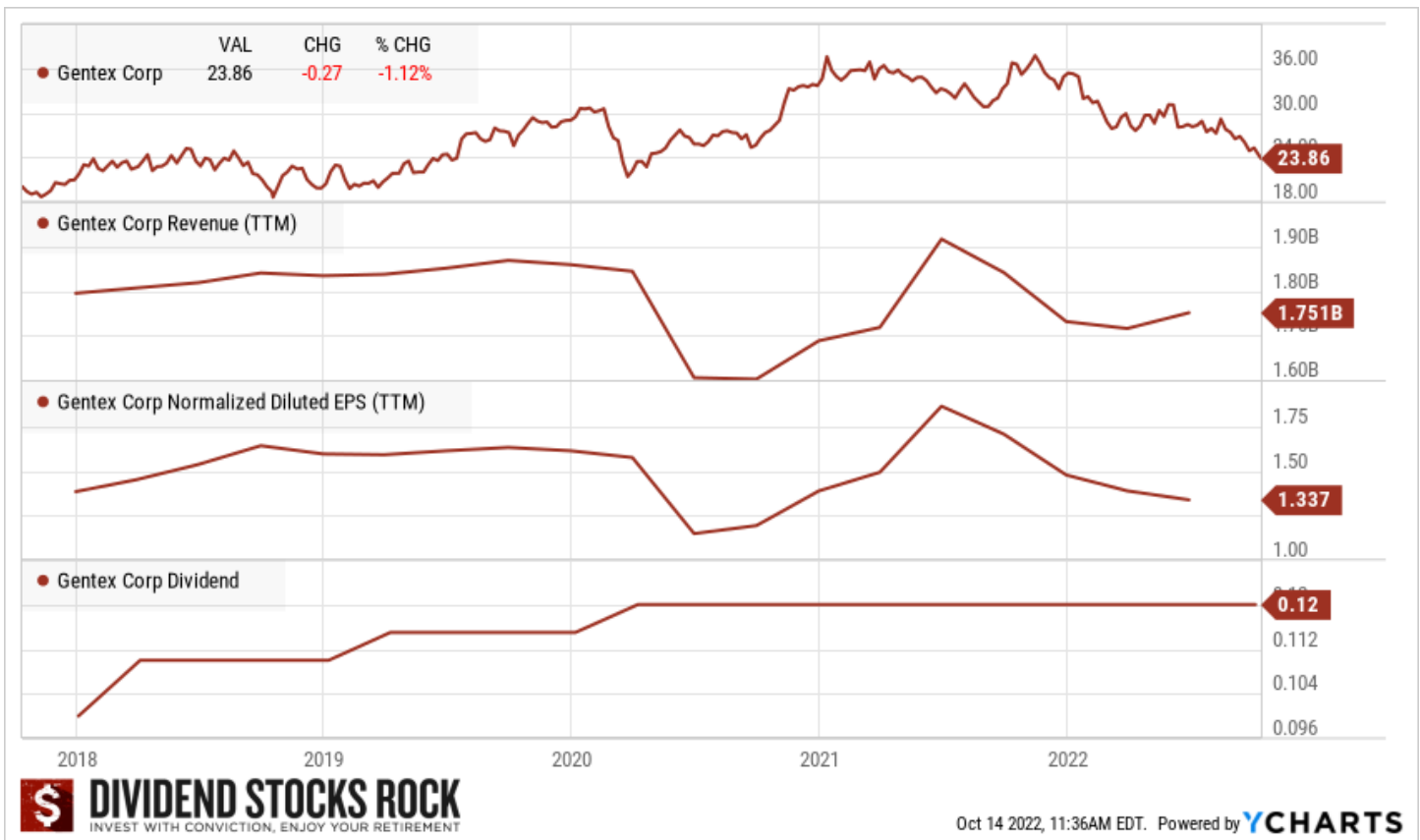
Terminal Dividend Growth Rate: 4.00%

|                  | Discount Rate (Horizontal) |               |        |
|------------------|----------------------------|---------------|--------|
| Margin of Safety | 8.00%                      | 9.00%         | 10.00% |
| 20% Premium      | \$14.98                    | \$11.98       | \$9.98 |
| 10% Premium      | \$13.73                    | \$10.98       | \$9.15 |
| Intrinsic Value  | \$12.48                    | <b>\$9.98</b> | \$8.32 |
| 10% Discount     | \$11.23                    | \$8.99        | \$7.49 |
| 20% Discount     | \$9.98                     | \$7.99        | \$6.66 |



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## Potential Risks

Magna Mirrors is GNTX's largest competitor and has more resources than GNTX. If Magna decides to compete with a similar technology, it could outperform GNTX. In addition, GNTX doesn't operate in a vast economic moat and has limited pricing negotiation power with automakers. The automotive parts industry is very cyclical and new technology (for example, if cameras were to replace mirrors) could impact demand. Production should remain depressed due to semiconductor shortages, and although there may be other upcoming headwinds, we expect the semiconductor shortage to improve in late 2022. GNTX's hefty R&D budget enables it to develop new technologies, allowing it to remain competitive.

## Dividend Growth Perspective

GNTX has increased its payouts each year since 2011 but did not make an increase in 2021. We were also disappointed by the 2019 (+5%) and 2020 (+4.5%) increases, but we should expect steady growth in the next few years. Current payout and cash payout ratios allow room for future increases. Gentex has ample amounts of cash (\$280M as Q2 2022) and virtually no debt. We would definitely like to see a return to the dividend growth policy in 2022, but this isn't likely to happen until 2023. Management will also continue its share buyback program. Don't mind the company's DDM valuation; low yielding stocks must exhibit double-digit growth to generate any value using this model.