**Morningstar - Reports on 4th quarter results 2024**

**Gentex Earnings: Chip Shortage Recovery Starting to Boost Results**

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**Mentioned:**

 [Gentex Corp (GNTX)](https://research-morningstar-com.library.access.arlingtonva.us/stocks/xnas/gntx)

Gentex’s stock rose by over 7% on Jan. 26 after the firm reported a 35.1% increase in fourth-quarter diluted earnings per share to $0.50, which beat the $0.44 Refinitiv consensus. We are not changing our fair value estimate but will review all modeling assumptions after we roll our model forward for the 10-K. With the auto industry recovering from the chip shortage and Gentex’s continued ability to grow revenue at a far higher rate than light-vehicle production in its core markets, we think the firm can reach its 2024 revenue guidance of $2.45 billion to $2.55 billion and its gross margin target of 35%-36% at the end of 2024. Guidance for 2025 is $2.7 billion at the midpoint.

Guidance for full-year 2024 gross margin is 34%-35%, while fourth-quarter 2023’s mark increased 330 basis points year over year to 34.5%. On the earnings call, management said the normal first-quarter gross margin pressure from 2%-3% annual customer pricing reductions will not be as severe in 2024 due to more concessions this time coming in late first quarter and second quarter. The end-of-year gross margin target is about 70% based on reducing bill of materials costs and the remaining 30% about evenly split from less scrap and overtime costs and higher volumes. Management, in our view, does a great job managing its supply chain and pricing terms with both customers and vendors, and material cost should get help starting around the second quarter as new contract terms with Gentex’s suppliers flow through the income statement.

The quarter saw a quarterly revenue record, with sales up 19% to $589.1 million, which included one-time cost recoveries of about $5 million and was a 13-percentage-point outperformance of combined vehicle production in North America, Europe, Japan, and Korea. Mirror volume rose by 12%, and the higher volume along with lower freight, less overtime, price increases, and purchasing reductions enabled the gross margin expansion as well as 41% operating income growth.