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PLXS - Q3 2014 Plexus Corp Earnings Call

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OVERVIEW:

Co. reported 3Q14 revenues of \$621m, diluted EPS of \$0.71 and non-GAAP diluted EPS of \$0.74. Expects 4Q14 revenues to be \$645-675m and diluted EPS to be \$0.74-0.80.



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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Plexus Corporation conference call regarding its fiscal third-quarter 2014 earnings announcement. My name is Ellen and I will be your operator for today's call. (Operator Instructions).

I would now like to turn the call over to Mr. Angelo Ninivaggi, Plexus' Senior Vice President, Chief Administrative Officer and General Counsel. Angelo?

Angelo Ninivaggi - *Plexus Corporation - SVP, CAO and Corporate Communications Officer*

Thank you, Ellen, and good morning everyone and thank you for joining us today.

Before we begin, I should remind everyone that statements made during our call today and information included in the supporting material that is not historical in nature such as statements in the future tense and statements that include believe, expect, intend, plan, anticipate and similar terms and concepts are forward-looking statements. Forward-looking statements are not guarantees since there are inherent difficulties in predicting future results and actual results could differ materially from those expressed or implied in the forward-looking statements.

For a list of factors that could cause actual results to differ materially from those discussed please refer to the Company's periodic SEC filings particularly the risk factors in our Form 10-K filing for the fiscal year ended September 28, 2013 and the Safe Harbor and Fair Disclosure statement in yesterday's press release.



Plexus provides non-GAAP supplemental information such as earnings or margin excluding special items as well as ROIC and free cash flow. We present information excluding special items because it provides a better indication of core performance for purposes of period-to-period comparisons. ROIC and free cash flow are used for internal management assessments because they provide additional insights into ongoing financial performance.

In addition, we provide non-GAAP measures because we believe they offer insight into the metrics that are driving management decisions as well as management's performance under the test that it sets for itself. For a full reconciliation of non-GAAP supplemental information, please refer to yesterday's press release and our periodic SEC filings.

We encourage participants on the call this morning to access the live webcast and supporting materials on Plexus's website at www.Plexus.com by clicking on investor relations at the top of the page and then events calendar.

Joining me today are Dean Foate, Chairman, President and Chief Executive Officer; Todd Kelsey, Executive Vice President and Chief Operating Officer; and Pat Jermain, Vice President and Chief Financial Officer.

Let me now turn the call over to Dean Foate. Dean?

Dean Foate - *Plexus Corporation - President and CEO*

Thank you, Angelo, and good morning, everyone. Please advance to slide three.

Yesterday after the close of the market we reported results for our fiscal third quarter of 2014. Revenues were \$621 million, an increase of 11% from the prior quarter setting a new record for the Company. Non-GAAP diluted EPS of \$0.74 was also a strong result coming in at the top of our guidance range.

Please advance to slide four for a few fiscal third-quarter highlights. Our revenue performance was above the midpoint of our guidance with growth in all four of our market sectors. Our go-to-market teams delivered \$282 million of new manufacturing solutions wins, well above our target putting our trailing four-quarter wins at \$801 million. Our engineering solutions group experienced another strong quarter of new program wins with result at \$23 million.

Our operating performance improved quarter over quarter. Operating margin advanced to 4.7%, a 20 basis point improvement. Our cash cycle improved by five days to 57 days and helped contribute to better than anticipated free cash flow. Return on invested capital improved to 14.6%, a 50 basis point improvement and is now 360 basis points above our weighted average cost of capital.

Construction at our new facility in Guadalajara, Mexico is now complete and we are presently transitioning programs from Juarez, Mexico.

Turning now to our guidance on slide five. We are establishing fiscal fourth-quarter 2014 revenue guidance of \$645 million to \$675 million suggesting our revenues would grow sequentially approximately 6% at the midpoint of our guidance range. We currently anticipate that our fiscal fourth-quarter could be an episodically strong quarter as a consequence of the rapid ramp of new programs.

While it is still too early to guide our fiscal first-quarter 2015 with confidence or precision and our customers continue to refine their forecasts as market conditions unfold, we believe it is prudent to inform you that our current visibility suggests that our revenue could contract in the zone of 3% sequentially from the midpoint of our guidance.

Consistent with our fiscal fourth-quarter revenue expectations, we are guiding diluted EPS in the range of \$0.74 to \$0.80. Our EPS guidance includes approximately \$0.10 of stock-based compensation expense but excludes any special charges.

With that I will turn the call over to Todd for some further comments about our market sectors and operating performance. Todd?

Todd Kelsey - Plexus Corporation - EVP and COO

Thank you, Dean. Good morning. Please advanced to slide six for insight into the performance of our market sectors during our fiscal third quarter of 2014 as well as our current expectations for Q4.

Our Networking/Communications sector was up 25% sequentially in fiscal Q3 which was slightly above our expectations. Seven of our top 10 customers showed strong quarter-over-quarter growth. Within the top customer group, three considerably outperformed expectations while three significantly underperformed the forecast.

Looking ahead to fiscal Q4, we anticipate continued strong performance for our Networking/Communications sector as aggressive new program ramps should help deliver sequential revenue growth in the midteens percentage point range for this sector. We anticipate Q4 to be a near-term revenue peak for this sector as our customers take advantage of favorable market conditions resulting from new product launches.

Our Healthcare/Life-Sciences sector was up 6% sequentially in Q3, on the high end of our expectations. This was driven by our top five customers where three significantly outperformed earlier forecasts.

Looking ahead to fiscal Q4, we currently anticipate revenue growth in our Healthcare/Life Sciences sector in the low single digits. We see modest improvement in end markets enhanced by new program ramps.

Our Industrial/Commercial sector was up sequentially about 6% in our fiscal Q3, below our expectations of high single-digit growth. Several of our top customers weakened during the quarter offset by the strong performance from one of our larger customers. We currently anticipate that our Industrial/Commercial sector will be flat in our fiscal Q4. We are seeing general market softening particularly in semiconductor capital equipment offset by new program ramps.

Our Defense/Security/Aerospace sector was up 4% in Q3, a result that was slightly below our expectations as shipments to a major aerospace customer were lower than anticipated. We currently expect Q4 to be up in the high single-digit percentage point range as we are seeing broad-based strengthening within aerospace and seasonal strength from a significant security customer.

Turning now to new business wins on slide seven. During the quarter, we won 25 new programs in our manufacturing solutions group that we anticipate will generate approximately \$282 million in annualized revenue when fully ramped in production. While from an absolute standpoint the wins were predominantly in the Americas and APAC regions, each of our regions had strong performance relative to current quarterly regional revenue. Our teams continue to drive for growth and improved utilization in each of our regions.

On a sector basis, our Networking/Communications and Healthcare/Life Sciences sectors had a particularly strong quarter. Our Networking/Communications wins included a significant expansion of business with one of our top customers. This business is ramping aggressively. We also added a new Networking/Communications customer in our EMEA region.

Within our Healthcare/Life Sciences sector, we added three new customers with substantial growth potential. Our Industrial/Commercial sector wins were predominantly programs from existing customers. However, we added one significant new customer impacting both our manufacturing solutions and engineering solutions groups.

Finally, while the magnitude of wins within our Defense/Security/Aerospace sector were small, we added three major aerospace OEMs with strong growth potential as new customers.

In addition, we had another outstanding quarter in engineering solutions with new program wins totaling approximately \$23 million. While our engineering wins continued to be strong in our Healthcare/Life Sciences sector where we clearly differentiate in the marketplace, our Industrial/Commercial sector also performed beyond expectations and is developing a sound value proposition and brand within that space.

Please advance to slide eight. Our manufacturing wins trend remains strong with our trailing four-quarter performance as shown by the blue bars at \$801 million resulting in a trailing four-quarter win ratio of 35%. As a reminder, we believe trailing four-quarter wins percentage at 25% of trailing

four-quarter revenues is sufficient to deliver growth consistent with our longer-term target. Our wins performance in fiscal Q3 as shown by the overlay green bar was up sequentially from Q2 and is well beyond our quarterly target of approximately \$160 million.

Our funnel of new business opportunities pulled back to \$2 billion versus the \$2.1 billion last quarter as our teams harvested a number of key opportunities. Despite the reduction, a funnel of this magnitude is healthy and sufficient. Our go-to-market teams are focused on rebuilding the funnel.

Turning now to facilities projects. During fiscal Q3 we completed our manufacturing facility in Guadalajara, Mexico, shown on slide nine. This is a 265,000 square foot facility which will enable further penetration into the low-cost Americas market.

We are currently qualifying production processes and building initial production units in the facility. The transition of business from our Juarez facility will be well under way by the end of fiscal Q4. We will cease operations in Juarez, Mexico in the first fiscal quarter of 2015. The demand for our Guadalajara facility is quite strong and we anticipate an aggressive ramp in revenue throughout fiscal 2015 with the expectation of positive operating profit in late fiscal 2015.

We are investing in resources ahead of the ramp in order to ensure success and build a strong brand for operational excellence within the facility.

Slide 10. I would like to highlight the performance of our operations initiatives and the impact on our operating performance. Our manufacturing solution, supply chain and go-to-market organizations have made significant strides in productivity initiatives. As a result we were able to expand operating margins from 4.0% to 4.7% over the course of the past six quarters. This includes an increase to 4.7% from 4.5% quarter over quarter. We expect further improvement approaching our 5% operating margin goal in fiscal Q4.

It should be noted that while our operating margins have expanded over the past several quarters, gross margins have been largely unchanged. This is a result of a conscious effort to invest at our sites and regions where our customers may be better served and in expanded capabilities such as microelectronics and aftermarket services. In order to offset these investments, we are driving leverage at the corporate level.

Finally I will turn to our recent cash cycle performance on slide 11. Our net cash cycle days for Q3 ended at 57 days, significantly better than our guidance range. Through a coordinated effort across the organization, we have made substantial progress in our cash cycle metrics over the longer term. We expect to exit FY14 with our cash cycle under 60 days and are focused on maintaining this performance in FY15.

With that, I will turn the call to Pat for a more detailed review of our financial performance? Pat?

Pat Jermain - Plexus Corporation - CFO

Thank you, Todd, and good morning, everyone. Our fiscal third-quarter results are summarized on slide 12.

Third-quarter revenue was a record \$621 million above the midpoint of the guidance range for the quarter. Gross margin was 9.4% for the fiscal third quarter. This was in line with our expectations and slightly below the fiscal second-quarter result of 9.5%.

Gross margin was impacted by the start-up of our Guadalajara, Mexico facility while we continued to service our customers in Juarez during the transition period.

Selling and administrative expenses were \$29.2 million in line with our expectations for the quarter. While SG&A dollars increased compared to the fiscal second quarter, we saw a meaningful reduction in SG&A as a percentage of revenue. This percentage improved from 5% in the fiscal second quarter to 4.7% in the fiscal third quarter as we experienced better leverage of operating expenses with our revenue growth.

Operating margin of 4.7% before special charges was in line with our guidance range. This was a nice improvement from the 4.5% in the fiscal second quarter and reflects the benefits of our operational initiatives.

Diluted earnings per share of \$0.71 includes a detriment of \$0.03 per share as a result of restructuring charges in the amount of \$1.2 million. These restructuring charges related primarily to the closure of our manufacturing facility in Juarez, Mexico that was announced last quarter. Excluding the \$0.03 of restructuring, non-GAAP earnings per share of \$0.74 was at the top end of our expectations.

Turning now to the balance sheet on slide 13, return on invested capital was 14.6% for the fiscal third quarter, a 50 basis point improvement from the prior quarter and 360 basis points above our 11% weighted average cost of capital for fiscal 2014. The improvement over both the prior quarter and the third quarter of fiscal 2013 was a result of higher earnings on a similar invested capital base.

During the quarter we repurchased 186,000 of our shares for approximately \$7.7 million at a weighted average price of \$41.52 per share. The shares were purchased under the \$30 million stock repurchase program authorized by the Board of Directors on August 19, 2013. The Company expects to complete the remaining authorized repurchases of approximately \$7.4 million on a relatively consistent basis during the fourth quarter of fiscal 2014.

As Todd reviewed, our cash cycle for the fiscal third quarter was 57 days which was better than our expectation and five days better than our results in the fiscal second quarter. During the quarter, we generated \$38 million in cash from operations and spent \$28 million in capital expenditures with approximately half of that capital for footprint expansion in Guadalajara, Mexico. Resulting free cash flow during the quarter was \$10 million.

As discussed in the press release during the fiscal third quarter, we amended our senior unsecured credit agreement to take advantage of what we believe are favorable rates. As a result of the amendment, the credit facility was converted into a \$235 million revolving credit facility. In addition to the amendment, we extended the termination date of the credit facility from May 2017 to May 2019.

As Dean has already provided the revenue and EPS guidance, I will now turn to some additional comments on the fiscal fourth quarter of 2014 which are summarized on slide 14.

We expect restructuring costs of approximately \$800,000 to \$900,000 in the fiscal fourth quarter related to the Juarez to Guadalajara transition. These costs are excluded from the guidance discussed today.

Gross margin is expected to be in the range of 9.3% to 9.6%. We expect SG&A costs to be slightly higher than the fiscal third quarter in the range of \$29.5 million to \$30.5 million. At the midpoint of our revenue guidance range, SG&A will be approximately 4.6% of revenue, slightly better than the fiscal third quarter. This results in expected operating margin of approximately 4.7% to 5% for the fiscal fourth quarter.

A few other notes, depreciation and amortization expense is expected to be approximately \$12.9 million in the fiscal fourth quarter up from \$12.1 million in the fiscal third quarter. We continue to estimate a tax rate for the full fiscal year 2014 of 8% to 10% which is above our fiscal 2013 tax rate of 3.2%.

Our expectation for the balance sheet is for working capital dollars to be up from the fiscal third quarter. Based on the forecasted levels of revenue, we expect these changes will result in cash cycle days of 56 to 58 days for the fiscal fourth quarter, consistent with the fiscal third-quarter results.

Our capital spending forecast remains at approximately \$75 million for fiscal 2014. The majority of this capital is equipment to support new program ramps and leasehold improvements for our new facility in Guadalajara.

I will now turn the call back to Dean for some wrap-up comments.

Dean Foate - Plexus Corporation - President and CEO

Thank you, Pat. I just wanted to point out those of you following along on the slide deck, we have a discontinuity between the tax rate Pat just mentioned and the tax rate on the slide. We will correct the slide. I believe Pat's commentary 8% to 10% is the correct tax rate.



Pat Jermain - Plexus Corporation - CFO

And that is for the full year.

Dean Foate - Plexus Corporation - President and CEO

For the full year, right. Okay. So before we turn the call over to questions, I will share with you a few near-term focus items. Please direct your attention to slide 15.

First, again, analysts and investors should be mindful that our fourth quarter could be an episodically strong quarter. We will certainly manage accordingly. To ensure no product supply disruptions to our customers, we are working to flawlessly execute the program transitions from Juarez, Mexico to a new facility in Guadalajara, Mexico.

We must carefully manage the growth momentum of our EMEA region to deliver operating profit and performance improvements in fiscal 2015. We expect a successful outcome at the Aerospace & Defense dedication event in our new facility in Neenah, Wisconsin this quarter. At this point in our operating cycle, we are focused on completing our 2015 annual operating plan and our strategy deployment initiatives for the year.

Operator, with that we will take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Shawn Harrison, Longbow Research.

Shawn Harrison - Longbow Research - Analyst

Good morning, Dean. Good morning, Todd. Good morning, Pat. I guess I was hoping to get a little bit more detail on why you think the revenue jump this quarter is going to be episodic and that it couldn't spill into the following quarter.

Then also just a little bit more detail on the win pipeline given it is probably be best number we have seen in eight quarters or something like that. Is there anything out there of similar size?

Dean Foate - Plexus Corporation - President and CEO

I am going to let Todd take the question on the episodic revenue and I will add in the quarter. Go ahead, Todd.

Todd Kelsey - Plexus Corporation - EVP and COO

Sure. So, Shawn, with respect to the quarter, I mean basically what we are seeing is we have a few new programs that are ramping very aggressively right now and we know our customers are taking advantage of some favorable market conditions in the process of these program ramps so we believe the revenue level is not sustainable although we don't necessarily have good visibility as we go out beyond our Q4 as to what the revenue trend will look like.

Dean Foate - Plexus Corporation - President and CEO

So I would just add to that there is just a lot of volatility with these programs as they first ramp up and we just are really mindful of the (inaudible) and we don't want you to get ahead of us here and take the Q4 result which we think may be a bit of a peak quarter here for a little bit and start to carry that forward.

So if you think about the midpoint of Q4 where we guided and I suggested we could be down as much as 3%, of course that 3% number if it occurs for Q1 would still be meaningfully above Q3 or the quarter we just completed. So it is just one of these kind of difficult investor relations issues we are going to have a bit of I think an anomaly here. Now again, this is based on our current visibility. The customer in this case because of the success of the product launch continues to refine their forecast frequently so we are just trying to suggest that we should be a little bit cautious here before we carry those numbers forward.

Shawn Harrison - Longbow Research - Analyst

Okay. Then just on the win dynamic being a \$282 million number, it is the best out there in a while. I know you have harvested the pipeline a bit but maybe just talk about the success and kind of are there other opportunities of that magnitude out there? Do you think it normalizes down over the next couple of quarters?

Todd Kelsey - Plexus Corporation - EVP and COO

Yes, so what I would say, Shawn, is first of all, I wouldn't expect any wins approaching this level in the near term, certainly not in the next quarter. I would expect it to be a more normalized number next quarter. That is really what our teams are looking at. They just had an exceptionally strong quarter and there was one very significant win. Again, that is ramping quite aggressively a bit atypical of what the ramp rate is for a normal program that we bring in. So that is having a pretty significant impact to the wins number.

Operator

Amit Daryanani, RBC Capital Markets.

Amit Daryanani - RBC Capital Markets - Analyst

Thanks a lot. Good morning, guys. First just maybe follow-up on that question, the episodic program, it sounds like it is just one program. Is that correct or are there multiple ones and if you could just talk about what end market is that occurring, that would be helpful.

Dean Foate - Plexus Corporation - President and CEO

There are multiple programs that are ramping up this quarter but certainly one of them is tending to dominate. It is with an existing customer which is part of the reason why we are able to ramp it as aggressively as we are. Again, we are not suggesting that the program is going to be a one-hit wonder over the short term. We are just suggesting that it is going to be episodically strong or we believe it will be episodically strong in this quarter. That could change but that is the visibility that we have. But we do expect revenue from that program going forward into fiscal 2015.

We are trying to be cautious here with our customers. This is obviously sensitive information so I'm going to stay away from naming the sector at this point.



Amit Daryanani - RBC Capital Markets - Analyst

That is fine. But I guess, Dean, just to understand, this is not like the ramps you have had in the past in the defense or industrial side where a big ramp happens and it just goes to zero pretty quickly after that. That is not the episodic nature of this one, this is just a big ramp and then in normalizes after that?

Dean Foate - Plexus Corporation - President and CEO

That is correct.

Amit Daryanani - RBC Capital Markets - Analyst

Fair enough. And then if I can just maybe follow-up on your cash cycle because obviously you had some good success here over the last couple of quarters. It looks like it is primarily driven by accounts payable though right now. So could you just maybe talk about have you changed the way you have your term set up with your suppliers that is helping you extend payables in the high 60s and is that sustainable as we go forward? Do we expect that to roll back to the mid-50s the way it used to be in the past?

Todd Kelsey - Plexus Corporation - EVP and COO

This is Todd, I will take that one. So with respect first of all to the accounts payable, I would say we are driving more aggressive terms with our suppliers. Now whether we can sustain it in the high 60s, probably not but I do expect that we will achieve inventory improvements as well too so we have an enormous amount of effort into reducing our inventory days right now and that will be a big focus for fiscal 2015. So we believe we can take inventory days down a meaningful amount through focus on demand planning where we are launching a new master production schedule processing tools and supply chain programs.

But with that being said, there certainly are reasons that the inventory is up in the current quarter as we prepare for the new program ramps and as we really look on servicing our customers through enhanced safety stocks and con bonds. But we will drive the number down.

Operator

Jim Suva, Citi.

Jim Suva - Citigroup - Analyst

Thank you and congratulations to you and your team there at Plexus for good results and outlook. My question is focused on the win rate which was extremely high both the number as well as the amount of revenues. Was there anything like a unique couple of win numbers that really drove that number much higher? Did you hire a lot more salespeople or engineers in that? And could we actually see this win rate continue going forward? And the characteristics of it, are those wins consistent with Plexus's operating margins or higher or lower or how should we think about the characteristics of those wins in those segments? Thank you.

Dean Foate - Plexus Corporation - President and CEO

Jim, I certainly don't think that you should start to model wins at that level. I think that these things can ebb and flow quarter to quarter. In this case, there was one win that was in there, a program that was north of \$100 million. Even backing that out, it would have been a pretty decent quarter for new wins. But certainly there was a pretty significant one and of course as we stated that was an existing customer win which allowed us to really get after it from a ramp standpoint.



In terms of the returns associated with these wins, it is a competitive environment that we are operating in but we still feel that the marketplace supports our value proposition and the pricing and the financial model that we have consistently stated. So I feel pretty good about the balance of wins across the sector and the modeling that we have from an economic standpoint associated with those wins.

Todd, do you have something to add?

Todd Kelsey - Plexus Corporation - EVP and COO

Yes, just one thing to add here, Jim. One of the things that really in getting at the quarterly wins and not focus too much on that number on its own is that we really look at the trailing four quarters because we know some quarters are going to be better than others. This happened to be an exceptionally good quarter but we really focus on that trailing four quarters number and making sure that it stays greater than 25% of the trailing four quarter revenue.

So right now the team is doing a great job of that. We believe they are doing really well but we wouldn't expect another \$282 million quarter next quarter.

Dean Foate - Plexus Corporation - President and CEO

I would also just follow-up because if I remember right, Jim also asked about resources. Now we haven't added meaningfully large numbers of additional resources but we have been attracting some very talented people to the Company and like all areas of our Company, we are interested in continuous improvement and making sure that we upgrade our talent and I just believe we just have a very talented team of people and we have improved our processes in our go-to-market strategy. So I think it just continues to bear fruit by just getting better at representing our value to customers.

Operator

Sherri Scribner, Deutsche Bank.

Sherri Scribner - Deutsche Bank - Analyst

Thanks. Good morning, gentlemen. I wanted to ask about the -- go back to the episodic quarter question. And I think, Dean, in your suggestions you suggested the business would be down about 3% in the first quarter, but that is still meaningfully above where the Street is and suggests about 20% year-over-year growth in the December quarter.

So I wanted to get a sense of is that right and what types of growth rate should we think about given the strength in the first quarter for fiscal 2015?

Dean Foate - Plexus Corporation - President and CEO

Right now I am out there. Yes, your math is right. You are thinking about it the right way. I agonized over even giving Q1 guidance or direction but I just felt like we had to given that we thought that Q4 could be so exceptionally strong. Clearly the opportunity for us in fiscal 2015, there is an opportunity for us to get into double-digit percentage growth territory. Now whether that will unfold, it is just so early to tell. I will tell you that the dynamic from our customers is they have a tendency now to lift forecasts near-term but not do much with the out quarters.

So it is our sense that there still is not all lot of long-term confidence in growth across the globe with our customers just based on their current behavior. So I think the Street has us in reasonable success territory right now. The shape of it might be a little bit different, could be a little bit light on the revenue front but I would just caution about getting too much out in front of us based on the current near quarters until we get a better



sense of how the economies are starting to develop around the world and when we start to see a little bit more confidence from our customers in the out quarters.

Sherri Scribner - *Deutsche Bank - Analyst*

Okay, that is really helpful. So it sounds like customers are still very cautious at this point.

Dean Foate - *Plexus Corporation - President and CEO*

They absolutely are.

Sherri Scribner - *Deutsche Bank - Analyst*

Okay. And then just maybe a question for Pat. Thinking about the operating margins, you guys are going to get close to the 5% in the fourth quarter. Should we think about a 5% operating margin at some point in fiscal 2015?

Pat Jermain - *Plexus Corporation - CFO*

Yes, I think that is reasonable, Sherri. We have got some headwinds ahead of us for this quarter in Q1 as we do the transition from Juarez to Guadalajara so that will impact us. Our March quarter traditionally has the salary increases and payroll resets so we will be impacted by that. But I think later in the year, we could see that and again, remember that we view that as our upper limit that we try and strive towards and we will continue to keep that as our target.

Dean Foate - *Plexus Corporation - President and CEO*

I think just to piece this to gather a little bit better, Todd talked about the view that Guadalajara will turn into positive profit territory later in FY15. We also as I commented, I didn't spend a lot of time on it but in my wrap-up, I talked to about the need to keep focused on EMEA and start to deliver returns in that region. We are seeing -- getting good traction now with our overall platform in Europe between the investments that we made in the UK, a new facility in Livingston with our design center there and rapid prototyping. We have gotten good traction now at our facility in Darmstadt where there -- as an engineering center which is challenging to build particularly in a market where attracting talented resources is difficult because of the employment level of engineers is so high and the ability to bring people in takes time. But we are starting to see Darmstadt turn into positive territory in terms of contributing to profitability of the Company.

Now the Oradea site is really starting to get some momentum behind it. So we could start to see a broader EMEA platform start to contribute to the business as well after a long period of investment here as we come through 2015 as well. So we are starting to get some things aligned I think that really put us in better territory.

But as Pat said, we've got to manage through this Juarez closure and transition. We didn't contemplate that at the beginning of the year. We made that decision during the year so we are going to take that on and we are taking that on now. Ultimately we will get the payback because we will get all revenues in Guadalajara and some additional revenues but we are going through a few things that we've got to just manage through here in the near term.

Still I don't want you think we are not going to have good margins. We are still going to have very good margins relative to the industry through this process.



Operator

Steven Fox, Cross Research.

Steven Fox - *Cross Research - Analyst*

Thanks. Good morning, guys. Two questions from me. First of all, it sounded like Guadalajara is going to ramp a little quicker than you thought originally. Can you just sort of gauge the risk of maybe it's more of a profit drag over the next 12 months than maybe you originally thought. I know you said it is going to turn profitable in a few quarters but is there risk that you are now bringing a lot more business into it in a shorter amount of time and what that does to profits?

Secondly, just listening to your comments on new wins, it seems like there is a larger number than usual amount of new customers mentioned and I was curious if one, if that observation correct? And two, what do you think is driving that and how that could affect both revenues and profits over the next few quarters? Thanks.

Todd Kelsey - *Plexus Corporation - EVP and COO*

Steve, this is Todd. I will start with the Guadalajara question. So with respect to Guadalajara, I would say one of the things that we are seeing is beyond the Juarez transition is a bit more aggressive ramp of other business than we had initially anticipated. So what we are doing in the nearer term is we are bringing on resources sooner. So that is of course having some level of impact on our overall operating profit margins but we think it is prudent to invest in that facility to make sure that it has a brand for operational excellence and to make sure that we are positioned well for the transition of the new business.

So if we looked at Guadalajara over the next several quarters as to really how it is going to progress, right now we are very much in the initial production build so we are building essentially first units for one of our customers that is transitioning. We will transition the Juarez business over the Q4 to Q1 timeframe and then really in Q2 and beyond, we will be launching some of this initial new business that we expect to launch within the facility.

So the impact that that has is really a few quarters of what you would consider investment but we really believe we should be able to exit fiscal 2015 with a very strong run rate on the order of maybe \$150 million to \$200 million in that facility and we should be able to generate decent profitability as we get to the back-end of fiscal 2015.

Operator

The next question -- I'm sorry.

Todd Kelsey - *Plexus Corporation - EVP and COO*

Steve had asked one more questions. It was about -- whether there was a more than typical number of new customer wins and whether that was a trend and whether it would have a significant impact. I would say there probably is a bit more this quarter and I don't know that I would consider it a trend though much like I wouldn't consider the \$282 million a trend. It is just the way it fell this quarter and I think the way our overall customer mix or win mix between targets and customers is falling out across the Company and across the last several quarters, I wouldn't expect that to have a significant impact operating profit margins as we move forward.

Operator

Mark Delaney, Goldman Sachs.

Mark Delaney - *Goldman Sachs - Analyst*

Thanks very much for taking the question and congratulations on the good results.

I was hoping you could talk a little bit more on the industrial end market. I think you said maybe one area within industrial was strong and then some other areas started to weaken if you would just elaborate a little bit more on where you saw the strength and then when you started to see some weakness in other areas?

Todd Kelsey - *Plexus Corporation - EVP and COO*

Yes, so Mark, one of the things I would say where we are seeing a little bit of softening is as I mentioned in the prepared comments is in the semiconductor capital equipment and that is not -- I wouldn't call it across the board. But right now we are seeing significantly more customers down than up within that space with our customer base. But I would say right now it is just a general market softening that we are seeing within our Industrial/Commercial customer base as well too. Things as you are aware, we are a little bit light, our projections for Q3 and forecasts have come down a little bit for Q4 from what we had initially anticipated or what we had anticipated a quarter ago relative to (multiple speakers).

Mark Delaney - *Goldman Sachs - Analyst*

Okay, that is helpful. And then maybe if you could also just update us on your plans for cash. I know in the past a lot of it has been overseas and has limited your ability to repurchase stock. But there have been some thoughts about maybe doing some things to increase the US cash balance and maybe just update us on what the plan is there.

Pat Jermain - *Plexus Corporation - CFO*

Sure, Mark. This is Pat. During the quarter, we did return \$40 million to the US through paying off some intercompany loans from our foreign operations and we are planning to do another \$30 million in the first quarter of fiscal 2015. And at that level I think we will be pretty comfortable with the level of cash overseas. Keep in mind that the balances you see at the end of the quarter are typically higher than the average cash balance during the quarter because of some of the payment terms we have got with suppliers. So I am comfortable with that level that we will have after bringing this cash back.

However, if the cash continues to build overseas, we will obviously look at opportunities for investment overseas and our ability to bring any of that cash back tax efficiently.

Then maybe I will just mention, Mark, that we are right now in the planning cycle for our annual plan for next year and we will be looking at the cash generation in the US to see if we can support a buyback for next year but that decision hasn't been made. We will go to our Board next month to discuss it and determine if we will do a buyback next year.

Operator

Todd Schwartzman, Sidoti & Company.

Todd Schwartzman - *Sidoti & Co. - Analyst*

Dean, just a follow-up on your view of Q1 relative to Q4. In a normal year so nothing reaching end of life, what would you expect to see the sequential revenue delta from Q4 to Q1?

Dean Foate - Plexus Corporation - President and CEO

That is a tough question because I am not sure what a normal year is any more. I would just say from a market sector standpoint, I would say that it is not atypical for us to see strength in healthcare. We have one particularly large customer that usually enjoys a very strong December quarter so we see a little bit of seasonal strength there and then that usually comes down somewhat into Q2. Perhaps that is redundant given I said seasonal.

Also it seems to be a bit of a pattern for us to see the Industrial/Commercial sector lighten up in our December quarter as well. Not -- again, it is difficult to tie it out to seasonality but this has been our experience I think more often than not on an annual basis. Networking/Communication though can -- sometimes you can see some strength based on budget flush for capital spend. So we will just have to see how this plays out.

DSA we really don't see a whole lot of seasonality. It has been a smaller sector for us, growing rapidly but the pace of the build and the deployment of that technology doesn't necessarily seem to at least in our experience follow any kind of cycle related to an annual cycle. It is more of a longer cycle of how aircraft platform get deployed in the field.

Todd Schwartzman - Sidoti & Co. - Analyst

Got it. And Pat, listening to you speak about this Guadalajara transition, it sounds as though the gross margin impact dissipates or goes away back half of the year at some point. I don't know if that is a Q3 or Q4 event or is it really early fiscal 2015 before we see that as a thing of the past?

Pat Jermain - Plexus Corporation - CFO

Yes, Todd, we will see a drag in our first quarter so our December quarter we would continue to see a drag before we see maybe a more breakeven in the March quarter of next year.

Todd Schwartzman - Sidoti & Co. - Analyst

So when the plant is fully up and running on an annual basis, can you give us some color as far as what you expect annual production to be at Guadalajara?

Todd Kelsey - Plexus Corporation - EVP and COO

Yes, this is Todd. As stated a little bit earlier, we look to about a \$150 million to \$200 million run rate as we exit fiscal 2015 and we would expect it to grow from there. The funnel in Guadalajara is quite strong. It is one of our stronger site funnels within the Company right now with a really good customer base and we are launching it with quite a good customer base. So we are very excited about the opportunity in Guadalajara for the long term. Of course we need to get through the transitions in the nearer term but we will do that and we will do that successfully and beyond to the back half of 2015 where we should be able to ramp revenue pretty aggressively.

Operator

Sean Hannan, Needham & Company.

Sean Hannan - Needham & Company - Analyst

So I actually have if I can quick questions for each Dean, Pat and Todd. The first thing I want to say though is I want to congratulate you guys on a record revenue quarter given that this is only a year after finishing that Juniper disengagement. So it is nice execution there.

So first, Dean, it is funny, I just keep hearing this cautioning and carefulness especially when we look to in that December quarter. But a sequentially down 3% quarter, it really implies about a \$640 million revenue quarter, that is still certainly above consensus. So just wanted to double check this caution is really in managing us in not getting far too aggressive in the estimate trajectory. Is that accurate?

Dean Foate - Plexus Corporation - President and CEO

That is accurate.

Sean Hannan - Needham & Company - Analyst

Okay. For Pat, in terms of gross margins, you mentioned investments in new programs and that really kind of driving some of that flattish result we have seen in gross margins. Are you also referring to in the inefficiencies with the new ramps as a part of that or how does that factor today and how does the magnitude of that ultimately start to abate and when can we expect that?

Pat Jermain - Plexus Corporation - CFO

Yes, maybe I will start and Todd can join in. I think the Guadalajara transition, we are seeing build up in cost at Guadalajara while we are still trying to maintain some of the cost structure in Juarez to service our customers so that is where I think we are seeing this drag in gross margin from my perspective and why we will continue to see that in the fiscal fourth quarter and continuing into the early part of fiscal 2015. Todd?

Todd Kelsey - Plexus Corporation - EVP and COO

Yes, what I would add is with the rapid ramp rate of some of these programs that are occurring, there are certainly inefficiencies that are occurring. They are having some level of impact as we just really have sent the message out to the teams really across the board, do the right thing for the customer so that we are positioned well for the long-term. So there are some inefficiencies resulting from that as well too.

Operator

[Goffia Chaudhry], Longbow Research.

Goffia Chaudhry - Longbow Research - Analyst

Good morning. I just have some follow-ups for Shawn. Regarding the Guadalajara drag, I was wondering if you could quantify how much do you see during the third quarter and then what were you expecting for the fourth quarter?

Pat Jermain - Plexus Corporation - CFO

Yes, the third-quarter I would say was about 10 basis points of a drag and moving into Q4 and Q1 of next year, it could be anywhere from 20 to 25 basis points.

Goffia Chaudhry - Longbow Research - Analyst

Just one more. Regarding the \$282 million in wins, you had mentioned that there was one significant win. I'm wondering if that win is one of the ones that you are expecting to ramp huge this quarter?



Dean Foate - Plexus Corporation - President and CEO

Yes, it is.

Goffia Chaudhry - Longbow Research - Analyst

Thank you.

Operator

Wamsi Mohan, Bank of America Merrill Lynch.

Wamsi Mohan - BofA Merrill Lynch - Analyst

Yes. Thanks for taking my question. Dean, you mentioned the \$100 million win that is obviously pushing up some of the revenue in the near term as well. Such ramps typically depress the margins as well in the near term. So can you quantify any such drag in margin from the ramp of this program that you are contemplating in the guidance which would turn into a tailwind going into the December quarter? Then I have a follow-up.

Dean Foate - Plexus Corporation - President and CEO

Yes, I think that the drag can be highly variable given the nature and complexity of the program whether it is a new customer or an existing customer. Fortunately for us this is an existing customer and it is being built in a plant that is already building product for this customer so we have the team in place. So we don't have I would say the kind of drag that you would have if you had a brand-new customer in place, new equipment. We are training new people to build very different product with a big mix.

So this one is actually -- which is why we are able to sign up quite frankly for the steep ramp is because we are very capable of doing this assuming the supply chain can fully support the rate of the ramp through the next couple of quarters. This is a little bit why we are being cautious as well on Q1. Even this quarter, we are just into this now so getting all of the material here, getting this thing ramped up, there is some uncertainty and risk associated with pulling it off.

So I think that is why we are being a little bit cautious in trying to get you guys not to get too far out in front of us. But we really shouldn't see significant margin drag associated with it.

Wamsi Mohan - BofA Merrill Lynch - Analyst

Okay, that is helpful, thanks. Then as a follow-up, how would you say the demand environment looks at this point versus the same point last year excluding the Juniper disengagement if you could talk in terms of the volatility of the orders and sort of the variability as you look through the back half of the year? Thanks.

Dean Foate - Plexus Corporation - President and CEO

I would say on balance, I would say it is a better environment but again, it is still the more near-term focus. I think if you go back a year ago, the bias of customers up or down in their forecast was pretty balanced and you can see both directions. I think now when you look at near-term forecasts, the likelihood for forecast adjustments is biased toward the upside and so we are seeing that sort of near-term quarters coming up. Yet as I tried to characterize earlier, out quarters the customers just kind of leave them sit. So we are not seeing a lot of that near-term demand translate to long-term confidence with the out quarters.



Operator

(Operator Instructions). Todd Schwartzman, Sidoti & Company.

Todd Schwartzman - Sidoti & Co. - Analyst

I just wanted to see if you can provide some color on the contents of the miscellaneous income line, the \$1.3 million, what lived in there?

Pat Jermain - Plexus Corporation - CFO

Yes, Todd, I can take that. It was made up of two pieces related to the Guadalajara start-up. We had some tax incentives that flowed through that line of about \$400,000. And then we had a land return over in Asia and China where we had previously paid a penalty and we were able to successfully have a refund on that and that was \$800,000.

Todd Schwartzman - Sidoti & Co. - Analyst

Okay, thank you very much.

Operator

Sean Hannan, Needham & Company.

Sean Hannan - Needham & Company - Analyst

So, Todd, I think we were on the point of inefficiencies before. Just want to clarify it sounds like the magnitude of these new ramps we are working through that is creating some inefficiencies today, sounds like perhaps that starts to abate maybe later in the first quarter into the second fiscal quarter. How should we think about that? Is that fair?

Todd Kelsey - Plexus Corporation - EVP and COO

Yes, that is very fair. I think it should be largely behind us as we get through this quarter.

Dean Foate - Plexus Corporation - President and CEO

I'm sorry, Sean. I would just like to make the point that the ramps -- we will see a little bit of an efficiency but the bigger impact I think to our performance here into -- or limiting our ability to get to completely 5% perhaps and the drag in Q1 is more associated with the transition from Juarez to Guadalajara. We made the decision to close Juarez kind of mid -- during the fiscal year here and so we got both sides operating right now and we are going through this process of qualifying production in Guadalajara so we have two teams of people essentially set up for our customers. And then as soon as we get the products qualified, we will start to move those product lines over to Guadalajara and we anticipate most of that work is going to be done during this quarter and should be largely completed as we get into Q1. So that is the movement from Juarez to Guadalajara.

Then we will begin to bring in other programs into Guadalajara and ramp them up. So I think it is more of a Guadalajara/Juarez management challenge. And then as Pat pointed out in our March quarter, you get a little bit of the seasonal costs where you have the payroll reset and salary increases and some of those things. But otherwise if you strip that out, the performance of the business is very strong right now.



Sean Hannan - *Needham & Company - Analyst*

Sure, Dean, that is helpful and crystal clear. Thank you. That is very good.

Then last one here, Todd, I think you had mentioned earlier in your comments there were three notable customers that beat and three that missed estimates. I think it might have been in Communications. I didn't know if you could maybe elaborate on sub segments and what might have occurred there?

Todd Kelsey - *Plexus Corporation - EVP and COO*

It was really across the board, Sean. It is hard to really give a lot of color around it, particularly around the misses. On the areas of the beats, I mean a lot of it had to do with the cable market so that is really we are seeing as a stronger subsegment of our Networking/Communications sector right now but the misses were across the board.

Operator

We have reached the end of the question-and-answer session. I would like to turn the call back over to Dean Foate for closing remarks.

Dean Foate - *Plexus Corporation - President and CEO*

Just a few quick comments and thank you. First, I want to thank the analysts and investors of course for their questions and they are always very thoughtful so I appreciate that.

Second, I want to thank the folks at Plexus. They really have pulled it together here in terms of our performance and getting past what was a big challenge in terms of loss of a significant customer and so we are well on our way now to getting ourselves back to good organic growth and performance and really focused on improving our performance on behalf of our customers.

And then finally, I want to congratulate Pat on his first quarter as a CFO of Plexus. With that, thank you everyone.

Operator

Thank you, ladies and gentlemen. This concludes today's conference. Thank you for participating. You may now disconnect.

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