

# FINAL TRANSCRIPT

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## **PLXS - Q3 2011 Plexus Corp Earnings Conference Call**

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**Jim Suva**

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**Sherri Scribner**

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## PRESENTATION

**Operator**

Good morning ladies and gentlemen, and welcome to the Plexus Corp corporate conference call regarding its fiscal third quarter 2011 earnings announcement. At this time all participant are in a listen only mode. After a brief discussion by management we will open the conference call for questions. The conference call is scheduled to last approximately one hour. I would now like to turn the call over to Mr. Angelo Ninivaggi Plexus' Senior Vice President, General Counsel and Secretary.

Angelo?



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**Angelo Ninivaggi** - Plexus Corp - Senior VP, General Counsel and Secretary

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

Before we begin I'd like to establish that statements made during this conference call that are not historical in nature, such as statements in the future-tense and statements including 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 forward-looking statements. For a list of major factors that could cause actual results to differ materially from those projected, please refer to the Company's periodic SEC filings, particularly the risk factors, in our Form 10-K filing for the fiscal year ended October 2, 2010. And the Safe Harbor and Fair Disclosure statement in yesterday's press release. The Company provides non-GAAP supplemental information. For example, our call today will reference return on invested capital. Non-GAAP financial measures, including return on invested capital, are used for internal management assessment because such measures provide additional insight into ongoing financial performance.

For a full reconciliation of non-GAAP supplemental information, please refer to yesterday's press release and our periodic SEC filings. Joining me this morning are Dean Foate, President and Chief Executive Officer, Ginger Jones, Senior Vice President and Chief Financial Officer, Todd Kelsey, Executive Vice President of Global Customer Services, and Mike Buseman, Executive Vice President of Global Manufacturing Operations.

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

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**Dean Foate** - Plexus Corp - President and CEO

Thank you, Angelo. And good morning everyone.

Last night we reported results for our fiscal third quarter of 2011. Revenues were \$559 million, with EPS of \$0.58. Customer forecast volatility during the quarter was significant, with reductions affecting all of our market sectors in Q3 and extending into fiscal 2012. As a consequence our third-quarter revenues came in below the mid-point of our guidance range, and our outlook for fiscal Q4 has softened dramatically from the earlier forecast. EPS in our fiscal third quarter was about the high end of our guidance range, due in part to favorable customer mix, as well as foreign currency exchange benefits. Turning now to some insight to the performance of our market sectors during fiscal Q3, and our current expectations looking forward. Our wireline networking sector was down about 3% sequentially in Q3. Below our prior expectations for modest growth and established guidance for the quarter. Looking ahead to Q4, we currently anticipate that revenue will decline in our oil sector in the low double digit percentage range.

As we have communicated over prior quarters, Q3 was the last significant production quarter for the Emerson-Avocent business, that is exiting out of Plexus. The headwind created by the program exit, in conjunction with weak forecast for the majority of our top customers in the sector has set the stage for a lack-luster Q4. We currently anticipate that our wireline sector will resume growth in Q1 fiscal 2012. Our wireless infrastructure sector was down approximately 6% sequentially in fiscal Q3, a slightly better result than expected as a few customers beat earlier forecasts. Offsetting, in part, a tough sequential comparative, as the fiscal stock program exit was completed in fiscal Q2. We currently anticipate that fiscal Q4 will be sequentially down in the mid-teens percentage range, as the majority of customers in our wireless sector have trend forecasts. Our current view is that the weakness will continue into Q1 of fiscal 2012. Our medical sector revenues were down about 11% sequentially in fiscal Q3, a somewhat sharper decline than we expected when we set guidance.

Looking to Q4, we are anticipating another soft quarter for our medical sector and some customers work down inventory position. Q4 revenue is expected to decline in the low single-digit percentage range before returning to growth in fiscal Q1 2012. Revenue in our investor commercial sector was up sequentially about 5% in Q3, in line with our expectations. Forecast volatility among our broad customer base in the sector largely netted out allowing the ramp of the Coca-Cola Company programs



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to drive top-line improvement in this sector. Looking to our fiscal Q4, we expect strong double-digit growth in our industrial commercial sector, the ramp of the Coca-Cola program's will again drive the growth as the majority of our customer forecast in this sector is net to flat to down. We currently expect growth in our commercial sector to continue as we enter fiscal 2012. Our Defense, Security, and Aerospace sector was up sequentially about 12% in Q3, stronger than earlier expectations as the aerospace component of the sector again performed well. We currently expect the sequential growth to abate in Q4 declining in the mid-single digit range before resuming growth in Q1 fiscal 2012. Turning now to new business wins.

During the fiscal third quarter we won 25 new programs at our manufacturing solutions group that we anticipate will generate approximately \$124 million in annualized revenue on the programs that are fully ramped in production. The majority of the new program wins are in our medical sector represented just under half of the -- of the dollar total. We experienced a marked improvement in our funnel of manufacturing opportunities during the quarter, increasing to approximately \$2 billion in qualified opportunities. About one-third of the new business opportunities are in our medical sector with another third in the industrial commercial sector. Following several strong quarters of new program wins in our engineering solutions group, Q3 wins were just about \$10 million below our internal targets. While the funnel of engineering opportunities is healthy, the funnel velocity is slower than usual as the economic uncertainty seems to be causing some decision paralysis and a few program cancellations.

Turning now to our guidance, we are establishing fiscal fourth quarter 2011 revenue guidance of \$530 million to \$560 million with EPS of \$0.50 to \$0.55. Excluding any restructuring charges and including approximately \$0.07 per share of stock-based compensation expense. In our fiscal Q2 earnings press release, back in April, I commented that the revenue growth would likely resume in our fiscal fourth quarter. Our guidance now suggests that Q4 will be modestly down sequentially when compared to Q3. Some of you might recall that during our investor day in June, I cautioned that customer forecast volatility had increased during Q3 and that the revenue bias had moved more towards risk than opportunity. While we managed to get through our Q3, largely in line with expectations our fiscal fourth quarter has softened substantially from our view at the end of fiscal Q2. And since our investor day, as customers brought the reduced longer-range forecast in light of softening end-market demand and economic uncertainty. Our current forecast indicates that revenues will bottom in our fiscal Q4 before returning to growth -- before resuming growth in our fiscal first quarter of 2012.

Looking ahead to fiscal 2012, we are taking a pragmatic approach to our full-year plan. We are calibrating our cost structure and setting internal targets with the objective of delivering our 5% operating profit target with a conservative revenue growth of high single-digit to low double digit percentage range. If we are successful, achieving these performance objectives, we should be able to deliver meaningful EPS growth as a consequence of improved operating leverage and a reduced share count from the recently completed share buyback.

While our funnel of opportunities and recent new business win rate would suggest higher growth is achievable during fiscal 2012, the continuing economic malaise is unquestionably affecting the performance of our customers end-markets, resulting in poor forecast visibility. We think a conservative stance is appropriate until we see evidence of an improving economic recovery. On an optimistic note, we will continue critical manufacturing capacity expansion projects in Xiamen, China, Penang, Malaysia and we anticipate we will invest in new manufacturing facility in Oradea, Romania to replace our lease facilities that served as our startup solution. And finally, we will continue to invest in our engineering resources at our new engineering solutions sight in Darmstadt, Germany. Our messages is pragmatic, fine tuned versus radical retrenchment.

Ginger?

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**Ginger Jones** - Plexus Corp - Senior VP and CFO

Thank you, Dean.

As Dean mentioned earlier, third-quarter revenue was below the mid-point of our guidance range. Gross profit was 9.7% for the fiscal third quarter, this was above our expectations and slightly below the fiscal second quarter. This reflected the mix of



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revenue during the quarter, and good leverage from several of our manufacturing sites. Selling administrative costs were \$29.2 million, above our expectations, and in line with our spending in the fiscal quarter. The increase in spending was a result of higher headcount related expenses, and the delay in the recognition of an expected tax incentive. SG&A costs as a percent of revenue increased slightly this quarter to 5.2%. Earnings per share was above the top end of our guidance range, which was impacted by two items during the quarter. As discussed above, operating profit was slightly better than our expectation at 4.5%, which resulted in approximately \$0.01 of EPS above our original expectations. Second, we had higher than expected foreign currency exchange benefit of approximately \$0.03 of EPS. Both of these factors resulted in EPS above our expectations.

Returned invested capital was 16.2% for the fiscal third quarter, well above our weighted average cost of capital of 13.5%. Working capital increased during the fiscal third quarter, with increases in both the dollar amount and in the days of cash cycle. Cash cycle days increased by 4 days, from the prior fiscal quarter of 75 days, compared to an expected range of 72 days to 74 days. I'll now get into the details by balance sheet line item. Days and receivables increased by 4 days to 49 days. This increase was primarily the result of fewer negotiated accelerated payments from certain customers, and returns days and receivables to a more normal level. Days in inventory were 88 days, down 1 day from our results in the prior fiscal quarter. The dollar value of inventory also decreased by approximately \$15 million or about 3%.

This is a good result in a quarter that had a significant amount of forecast variability and the continued ramp of new programs. The reductions were in raw materials and work in process, as we continue to reduce inventory levels, while still supporting our customers needs for flexibility and agility. Accounts payable days decreased by 2 days to 56 days, largely the -- largely the result of the timing of inventory receipts during the quarter, which were concentrated in the early portion of the fiscal third quarter. Days of cash deposits increased by 1 day to 6 days, or \$31.2 million. These are deposits received from customers to offset the risk of inventory that we hold on their behalf. Free cash flow for the quarter was slightly negative in the amount of \$3 million, with year-to-date positive free cash flow of \$20 million. We generated \$60 million of cash in our operations during the quarter, with earnings from operations offset by the increase in working capital. During the quarter we spent \$19 million in capital expenditures, primarily for footprint expansion in the Asia Pacific region, and equipment to support new programs. We completed the planned 175 million share repurchase during the fiscal third quarter and the first week of fiscal fourth quarter, at a weighted average price of \$32.29. We have no immediate plans to use the remaining 25 million share repurchase authorization, which we retain for future use based on market conditions. During the fiscal third quarter we also completed the previously announced planned funding of \$175 million of new debt. With the final tranche of \$75 million funding on June 15, 2011.

The \$175 million of senior notes, which were sold in a private placement, have a seven-year term, and an effective fixed interest rate of 1.97%. We believe this level of debt appropriately leverages our balance sheet, to improve weighted average cost of capital and create shareholder value. I'll now turn to some comments on the fourth quarter of fiscal 2011. Gross margin is expected to be lower than the results in the fiscal third quarter, in the range of 9.2% to 9.4%. This is lower than our targeted model of 10% and reflects changes in revenue mix, and the impact of lower expected revenue in this quarter. We are continuing our focus to offset near-term gross margin pressure with aggressive management of costs including SG&A, in an effort to protect operating profits. SG&A for the fiscal fourth quarter of 2011 is expected to be in the range of \$27.5 million to \$28 million lower than our spending in the third quarter of fiscal 2011. Depreciation expense is expected to be approximately \$11.7 million to \$12 million in Q4 up from \$11.7 million in the fiscal third quarter.

We are estimating effective tax rate for fiscal 2011 will be 3%, this is an increase from fiscal 2010, based on slightly improved outlook for US operations. As demonstrated in recent periods, the tax rate can vary during the year based on the mix of forecasted earnings between taxing jurisdictions. Our expectations for the balance sheet are for both inventory and accounts receivable to decrease in the fiscal fourth quarter, a good result as we manage the forecast variability. And support the higher level of revenue expected in the fiscal first quarter of 2012. Accounts payables are expected to increase slightly in dollar terms. Based on the forecasted levels of revenue we expect these changes will result in lower cash cycle days. We currently expect cash cycle days, net of cash deposits of 70 to 74 days for the fiscal fourth quarter. Our capital spending forecast for fiscal 2011 is now approximately \$80 million. This is a decrease from our previous estimate of \$100 million, as we have adjusted our capital spending plans in response to general, economic uncertainty and a volatile customer forecast. Despite the uncertainty, our global full



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capacity remains high at 85%, which is not sustainable to support new programs and retain white space to show to potential new customers.

As discussed in our earnings release, and as Dean just mentioned, we remain optimistic about our continued organic growth. We will continue to expand our footprint in close proximity to our existing locations. This includes the fourth manufacturing site in Penang, Malaysia that was announced in July 2010. It is well underway and expected to be operational in the fiscal first quarter of 2012. Completing this facility, an initial equipment are a significant portion of the expected \$33 million in capital expenditures, expected in fiscal fourth quarter 2011. The second facility in Xiamen, China is well underway and will be complete in the second half of fiscal 2012.

Finally, we remain committed to our new facility in Oradea, Romania. We expect to announce the construction of this new facility in the first half of fiscal 2012. This will replace the lease buildings that served as our startup solution in lower-cost Europe. Our financial model, and targeted ROIC is designed to generate enough cash to support 15% to 18% revenue growth. We expect that we can continue to fund these capital expenditures and generate free cash flow in fiscal 2011, in the range of \$50 million to \$60 million. Our current view of fiscal 2012 suggest capital expenditures in the range of \$110 million to \$120 million as we complete the new facilities in Asia and begin construction of the new site in Romania. We expect to fund investments in fiscal 2012 with our existing cash, and to also generate free cash flow. With our committed \$100 million line of credit, with our existing bank group, we have ample cash to support our growth.

With that, I will open the call for questions. We ask that you please limit yourself to one question and one follow-up. Operator? Please leave the line open for follow-up questions.

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Our first question comes from Wamsi Mohan of Bank of America. Please go ahead.

**Wamsi Mohan** - *BofA Merrill Lynch - Analyst*

Yes, thank you, good morning.

Can you talk about, what specifically you are seeing within your customer forecast that's -- causing you to lower your fiscal 2012 targets right now? Your commentary Dean, suggests that fiscal 4Q will be the trough quarter, so presumably customer forecasts are showing improvement off that lower base in fiscal 4Q? So, what specifically are you looking at, that's giving you more pause here for several points of growth?

**Dean Foate** - *Plexus Corp - President and CEO*

Well, I'm going to let Todd take part of this, but I just wanted to start by saying that at this point, I think that it's pretty clear that the economic recovery -- doesn't have a whole lot of strength to it and I think that we are seeing that reflected generally in customer forecasting. So, we've seen forecast now from our customers throughout fiscal 2011 come down quite dramatically through the course of the year, from what they had been when we came into the year.

We saw some stabilization in kind of later part of our Q2 and we saw things come down in Q3 affecting our Q4, and all the way out into fiscal 2011. So, our position at this point is that we don't think that it would be wise for us to rely on the whole lot of market -- our customers and market growth to drive top line revenue for Plexus in fiscal '12 at this point. We really need to look at it as we are going to drive top line growth more from new program wins. And so, we're not going to get that effect from the



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existing programs, and we think that it is pragmatic, essentially to plan in a very conservative way. And make sure that we can drive earnings growth, potentially a lower revenue growth target.

Now, that doesn't mean that we're going to throw in the towel and say that we can't achieve our enduring goal of 15%, we're setting targets, also internally for our go to market teams and et cetera, to try to drive stronger performance, but we just think that the economic recovery is just not there. And we are clearly seeing it reflected in our customer forecast.

And so, it's a bit of a long-winded answer but I think that it's important -- I would like Todd, a little bit, to comment on the kind of Q4 to Q1 kind of trough, the growth again, just give you a little sense of why we feel that's a reasonable expectation at this point.

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**Todd Kelsey** - Plexus Corp - Executive Vice President of Global Customer Services

Sure, so thanks, Dean. And this is Todd. So, with respect to Q4 to Q1, as Dean had mentioned, we are really not seeing any reason to think that there's strong stabilization in our customers end markets for the existing business. However, we are in a process of ramping several new programs as a result of the new program wins over the last one to two years, that are going to contribute significantly to fiscal 2012. We also have the continued ramp of the Coca-Cola project which is been largely on track for the last one -- over a quarter in essence. And then we are also seeing, as Dean had mentioned earlier on in the call, right now we are seeing an inventory correction within the medical sector and that should largely be behind us as we enter Q1. So, really, those three primary factors will drive what we believe to be growth back into Q1.

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**Wamsi Mohan** - BofA Merrill Lynch - Analyst

Okay, thank you for sharing that color. Ginger, for my follow-up, could you perhaps address a little more detail around the lower SG&A levels? Can you help us understand the primary drivers there? And, do you think your cost structure will then be appropriate for the [reoccurring] level of revenues or are you thinking of additional SG&A rationalization heading into fiscal 2012? Thank you.

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**Dean Foate** - Plexus Corp - President and CEO

Yes, thanks Wamsi.

We have been really disciplined about adding people over the past year, and will continue that into F '12. So, at the current level of revenue that we are expecting for F '12, and that we talked about the press release, we would have good leverage in SG&A, we'd be below 5% which is our target. So, I would say no radical changes expected, more of our on-going process to manage it. Now, that said, we always have levers that we can pull if the situation gets worse. And so, if we needed to make other changes, we could but at this point without having radical adjustment needed to deliver the lower level of SG&A.

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**Wamsi Mohan** - BofA Merrill Lynch - Analyst

Okay, thank you very much.

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**Operator**

Our next question comes from William Stein, of Credit Suisse. Please go ahead.



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**William Stein** - *Credit Suisse - Analyst*

Thanks. Good morning. Based on your revenue growth expectations for fiscal '12, now, do you expect to hit your 5% operating target by the end of fiscal '12 or for the full-year?

**Ginger Jones** - *Plexus Corp - Senior VP and CFO*

Well, we expect to hit it for the full year.

**William Stein** - *Credit Suisse - Analyst*

Okay, got it.

And, can you talk a little bit about the demand read that you're seeing? When did you start seeing it deteriorate? I know you mentioned it at the analyst day, but did that kind of volatility and deterioration continue into the current quarter? And, how broad a read do you think Plexus is relative to what we might expect to see elsewhere and other companies and the economy?

**Dean Foate** - *Plexus Corp - President and CEO*

Yes, we thought that we saw some stabilization actually, when we gave our Q3 guidance and we were starting to feel like okay, things have calmed down. And of course then, when we re-rolled the forecast in June, we started to see, again -- actually that the May and the June forecast role. And of course that's why I was cautionary at investor day because while we still have some pretty good numbers in Q4, it was clear that things -- the volatility with starting to pick up again. That's why I made the comment about it seemed like there was more risk than opportunity that point in the forecast. And then, when we rolled again in the forecast in early July, it was clear that the Q4 numbers have kind of come unglued.

So, and as I commented earlier, across all the sectors it was red ink everywhere on the forecast, on the customer lists. Other than where we saw specific new program ramps that were causing growth and, of course, the Coca-Cola program was one of those program ramps. So, it was the green [or up] numbers were really limited to new programs, anything that was kind of legacy program or existing program had softened up. We saw quite a bit of softening in medical, as we said, where we have a pretty broad list of customers in the [aplotumial] space and some other areas of that healthcare marketplace, that really took numbers down quite dramatically to try to work down some inventory positions that they had.

In terms of the read on everybody else, I would say, it would be hard for me to mentioned that they're not seeing the same kind of forecasts softening -- but it's hard to say what the reference level is and how aggressive they were in the forecast to begin with. So, we'll just have to see how that shakes out over the next couple of weeks.

**William Stein** - *Credit Suisse - Analyst*

Just if I can on Coke, because you mentioned it a couple times now. Where is that in the process of the ramp? When do you expect it to be at the normal run rate -- let's say the stable run rate?

**Dean Foate** - *Plexus Corp - President and CEO*

Sure, Todd will take that.





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**Todd Kelsey** - Plexus Corp - Executive Vice President of Global Customer Services

Sure. So, where we are at with Coke, is that I would say we are in the ramp, we are a reasonable portion of the way through it. They are seeing increased excitement I'd say in the marketplace. And we will continue to ramp that over fiscal '12, is our expectation.

**William Stein** - Credit Suisse - Analyst

Great, thank you.

**Dean Foate** - Plexus Corp - President and CEO

Thank you.

**Operator**

Our next question comes from Jim Suva of Citi.

**Jim Suva** - Citigroup - Analyst

Thank you, and it's good to hear from you.

The question I had is, since we just basically finished fiscal Q3 with -- an appropriate outlook for Q4, given what's going on, given the increased volatility, Dean, that you mentioned. I just kind of scratch my head and think about why guide full fiscal '12 now, as opposed to in three months after we -- progress the rest of the way through the quarter? Especially with the low visibility, or, is it simply to get expectations in line with what you are seeing?

**Dean Foate** - Plexus Corp - President and CEO

Yes, I think it's really the later, Jim. Given how Q4 came down so dramatically, we didn't want to leave it hanging out there without some sense of calibration for '12. And without giving some commitment that were not going to let -- people -- kind of really be pragmatic about it. So, to leave it out there without comment, who knows where everybody would have ended up on the year. And we certainly want to make sure that everybody understands that even if they expect a lower level of revenue, we're still going to craft their model as such, that we can deliver very strong EPS growth through the year, even on the lower revenue numbers. And so, we just thought it was appropriate to say that. I hate to call it our guidance at this point, rather it's a calibration on our ability, on our operating leverage and our ability to deliver EPS growth and generate shareholder value, even on a lower revenue number.

But, we just didn't want to have it floating out there, after what was obviously quite a big surprise on the swing on Q4.

**Jim Suva** - Citigroup - Analyst

Great. Thank you.

**Dean Foate** - Plexus Corp - President and CEO

You're welcome.



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**Operator**

Our next question comes from Amit Daryanani of RBC Capital Markets. Please go ahead.

**Amit Daryanani** - RBC Capital Markets - Analyst

Thanks, good morning guys. Just had a question, look at the September quarter guide being down sequentially. Could you, A, just talk about what is the impact from Avocent [step] down on a sequential basis. And then, B, on that, when you look at the infrastructure segment. Is your sense of absolute end demand is down ticking or customers may just be taking inventory down because of either apprehensive of the macro situation or they are boiling down some excess inventory after Japan? Any insight there would be helpful.

**Dean Foate** - Plexus Corp - President and CEO

Yes, I think, the Avocent step down, if my memory is right, was in fact our wire line networking [in sector]. And I believe that was on the order of about \$12 million step down, quarter to quarter. So, that would've been Q3, going into Q4. So, that step down is in there. And, of course, I just want to make a comment, if anybody wonders about the Starent thing, the Starent step down was actually Q2 to Q3. So, it is done essentially so there was nothing -- it was done back in Q3. Relative to Japan, I guess just from my comments on the supply chain. I didn't want to comment on that first, in terms of sourcing materials. We're not seeing any issues related to Japan. We think that's certainly during this quarter, and absolutely by next quarter, we think that the supply chain issues will be fully work through and we are not really getting any constraints on the supply chain. In terms of our customers selling into Japan, it certainly was an end market for some of our customers, but I don't know that it was dramatically material in terms of demand equation for us.

Todd, you may have a different view on it, a more detailed view on it. But, just as my understanding as the customer flow, certainly they do sell into that market place. But we haven't seen a dramatic impact or material impact to our numbers as a consequence of Japan.

**Todd Kelsey** - Plexus Corp - Executive Vice President of Global Customer Services

I would agree with that, Dean. It mean I think our customers are seeing some softness into Japan, but for the most part, it's not a huge part of their market.

**Amit Daryanani** - RBC Capital Markets - Analyst

So, [shiate] would be the down turn you see in the infrastructure segment, at least, is a reflection of this end demand getting worse and actually customers taking inventory lower? Is that fair?

**Dean Foate** - Plexus Corp - President and CEO

I think that's fair, yes.

**Amit Daryanani** - RBC Capital Markets - Analyst

And then just my quick follow-up would be, when I run the math to get back to 5% op margin, I just want to verify, you would need a \$625 million kind of quarterly run rate to get back to the 2010 [fire] model is that accurate?



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**Ginger Jones** - Plexus Corp - Senior VP and CFO

Yes, I'm not sure it's actually the higher think we're making -- were taking cost out of both gross margin and the SG&A line. So, we are going to calibrate our cost to better match what we hope is a decent F '12 but I don't know that it is going to be that high per quarter.

**Amit Daryanani** - RBC Capital Markets - Analyst

Alright. Thank you.

**Dean Foate** - Plexus Corp - President and CEO

Yes.

**Operator**

Our next questions comes from Sherri Scribner, Deutsche Bank.

**Sherri Scribner** - Deutsche Bank - Analyst

Hi. Just a couple clarifications on the model. With the share buybacks, what is your expectation for the share count?

**Ginger Jones** - Plexus Corp - Senior VP and CFO

Hi, Sherri. The share count the we expect for Q4 is 36.4 million shares. And we would expect that to grow modestly by quarter through F '12 just as we exercise stock options. And that assumes that this point that we do not utilize that remaining \$25 million of the share authorization, which we don't have any plans to do right now.

**Sherri Scribner** - Deutsche Bank - Analyst

Okay. And then, in terms of the interest expense with the new debt would you expect it to be at similar levels at this quarter? Or, is that tick up of that?

**Ginger Jones** - Plexus Corp - Senior VP and CFO

Well, this quarter is harder to read because we had some gains on foreign currency which are going through that other income and expense line. So, overall the interest rate should be pretty easy to calculate because it's the 5% on a new debt. And, we are expecting other income and expense, in total, in the range of about \$4.2 million to \$5.2 million per quarter which includes the new debt.

**Sherri Scribner** - Deutsche Bank - Analyst

Okay, great. And then just another clarification, the final clarification for Dean. It sounded like, for the first quarter, you expect all segments to grow sequentially except for the wireless segment. Do I have that correct?



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**Dean Foate** - Plexus Corp - President and CEO

For the first quarter?

**Sherri Scribner** - Deutsche Bank - Analyst

Yes, for the fiscal first quarter.

**Dean Foate** - Plexus Corp - President and CEO

That is correct.

**Sherri Scribner** - Deutsche Bank - Analyst

It is. Okay, great. Thank you.

**Dean Foate** - Plexus Corp - President and CEO

Thank you.

**Operator**

Our next question comes from Shawn Harrison of Longbow Research. Please go ahead.

**Shawn Harrison** - Longbow Research - Analyst

Hi, good morning, everyone. I wanted to speak on kind of the expanded pipeline here. Up to \$2 billion. I guess the question I have is now that's it jumped a couple hundred million dollars from last quarter, how quickly does that translate into larger, quarterly wins? Or, is it just more, potential opportunities long-term, just wanted to see if there's a correlation between the pipeline expanding and maybe the win rate jumping in one to two quarters?

**Todd Kelsey** - Plexus Corp - Executive Vice President of Global Customer Services

Sure, so Shawn, this is Todd, I will take this question.

So, we've had a lot of focus within the teams on expanding the size of the pipeline. I think, as you're suggesting here, that goal with the expanded pipeline is an increased win rate. Probably be a bit reckless to predict that we are going to increase it substantially for next quarter, but that is with the goal is. And there's some -- a good number of, I'd call late-stage opportunities that we believe have the potential to close in the near term. So, that's what we're driving towards, to increase at win rate. And, we don't think we are at a bad level right now, it's a decent level. But, we like to take that up, particularly to offset some of the end market conditions that we are seeing right now.

One of the other big focuses that we have right now, and it has played out in the wins for this quarter as well. We talked at investor day about a more balanced, regional revenue growth. And the teams are quite focused on really balancing that regional revenue growth. And, if we look at the Q3 wins, and outside share of those wins were in our Americas and EMEA region, so we for good about the progress that we are making on that front.



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**Shawn Harrison** - Longbow Research - Analyst

Just as a follow-up with some of the opportunities that are close to close and maybe the expanded pipeline. Are you seeing similarly, the smaller size opportunities? Or are there large-size opportunities that seem to be coming to the market?

**Todd Kelsey** - Plexus Corp - Executive Vice President of Global Customer Services

I would say there's more larger opportunities at this point, right now.

**Dean Foate** - Plexus Corp - President and CEO

Yes, I'd like to follow-up on that's a little bit. Two points. One, I think that we're seeing more of these opportunities that are associated with OEM plant closures, again.

So, like when we were looking into '08, '09 in the recession, where we saw some customers finally make some tough decisions about exiting some plants. We're seeing more of those kinds of opportunities come out onto our plate. We are also seeing a number of what I will call smaller, EMS providers that are in play. Not that we are interested in being an acquirer of smaller EMS companies, it does suggest there is revenue opportunities there that we might be able to go after. So, there's quite a bit of indications that the lingering effects of the recession are putting pressure on the OEMs. And putting pressure on some of the smaller companies to think differently about the future of their business.

The second point I want to make is that, on the regional growth strategies that Todd talked about, I talked about as an imperative at investor day. And of course, part of the imperative was to make sure that we get good return on our capital in all the regions where we do business. And of course, part of the way that we are going to drive the improved operating performance of the Company is to get better operating leverage out of the Americas region. So, this is an important part of the strategy to deliver better return.

**Shawn Harrison** - Longbow Research - Analyst

And then, just as a brief follow-up, Ginger on the income statement. Did the client expected in SG&A, is that more just tied to that delayed tax issue? And then taxes for 2012 should we expect a similar range or would they increase?

**Ginger Jones** - Plexus Corp - Senior VP and CFO

A good portion of the decrease that we expect in Q4 is related to the tax incentives, which is related to training expenses, and a grant from state governments help us offset training expenses related to some of our expansion here in Wisconsin. So, that's a good portion of what we will see in Q4. Although as I said, we do continue to be very disciplined about spending and headcount on the SG&A line.

And then the second part of your question is related to the tax rate. My expectations for the tax rate, for F '12, have gone up a bit. And I'd say that we're likely in the high single digits from tax rate, possibly 6% to 8% for F '12. Largely based on some strengthening of our US operations, not only from the Coca-Cola program, but also from this focus that we've seen about driving more regional growth. And we're seeing more good opportunities in the Americas, which as that strengthens, our US operation increases our tax rate.



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**Shawn Harrison** - Longbow Research - Analyst

Great, thanks so much.

**Dean Foate** - Plexus Corp - President and CEO

Thank you.

**Operator**

Our next questions comes from Brian Alexander, Raymond James.

**Brian Alexander** - Raymond James & Associates - Analyst

Thanks. Following up on the new wins, even if they don't improve, they are still pretty good at about \$500 million, annualized. So, it would seem that the fiscal year '12 revenue outlook, which I realize isn't official guidance. But it implies a major deterioration in your existing business because if we just grow 10% next year, that would be \$220 million of incremental revenue. Yet your new wins alone are more than double that. So, I'm just trying to reconcile your outlook for next year, relative to the new wins that you're tracking at, which could actually improve. And I know that there's Avocent Star in impact for fiscal year '12 maybe \$70 million comes out of the model, but it sounds like the ramp in Coke could almost completely offset that. So, just trying to recognize those two. Thanks

**Dean Foate** - Plexus Corp - President and CEO

I am so glad you pointed out that map, because you're absolutely right, it'd required quite a bit of pessimism to suggest that we can't grow better. But I think it is important to understand that the way we look at the business is that you always got a hole in the bucket, so to speak, because you got end-of-life programs and all those kinds of issues. So, you always have to overcome that drag. And also, when you look at the wins that were announced in the past and say, well, what is the haircut on that number? Given that the customers maybe felt more strongly about that revenue run rate, when we won the program versus the revenue run rate that is actually yielded when we ramp program up because the economy is softer than they had originally anticipated.

And, so, we tried to give you the best, most consistent sort of number on the wins that we can every quarter, based on the marketplace looking forward from that point in time. But, if you go back into early last year, customers clearly were more enthusiastic about their end market success than they are today. So, if fast-forward that win to a much later date then it may have been a smaller number, is my point.

**Brian Alexander** - Raymond James & Associates - Analyst

Are you seeing -- just to follow-up on that, Dean. Are you seeing more programs go end-of-life now? As a percentage of your revenue that you've seen in the past? And, has the yield on the new wins been tracking below your expectations? Is that part of what we are talking about here? And then I have one more follow-up.

**Dean Foate** - Plexus Corp - President and CEO

Yes, I don't think that we are seeing anymore end-of-life issues, other than we had a couple of big dislocations this year with Avocent Star, as frequently pointed out. But I don't think the pace of end-of-life is up. But I would say that the yield on the new programs over the slope of the ramp is slower on the new wins than it would have been if the economy was stronger.



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**Brian Alexander** - *Raymond James & Associates - Analyst*

Okay. Alright, that makes sense. And then, my follow-up would be, if it turns out that you're being conservative about fiscal year '12 growth, than maybe we end up closer to 15% than 10%, how quickly can you respond to the upside to customer forecast? And, what are the implications that, that could have the margins? So, for example if we end of growing closer to 15% then 10% can you still have the 5% operating margin for the year?

**Dean Foate** - *Plexus Corp - President and CEO*

I think there's a couple ways to think about this. I mean, we do -- part of -- on the optimistic side, as we are putting the capacity in place and I'm going to have Mike just comment about that a little bit because we are clearly at -- pretty tight on -- physical capacity, which of course, is [enabled] for high revenue growth. In terms of if we grow faster, I don't see any reason why we wouldn't hit the model. I mean, it's conceivable that we could have a pretty darn good performance if we're actually able to drive higher revenue growth, because we should get even better leverage on the SG&A line. So --.

**Ginger Jones** - *Plexus Corp - Senior VP and CFO*

Yes Brian, I would agree. In periods historically, where we've outperformed and we've had deeper growth than we've expected, we generally have the ability, as long as we have invested in the footprint which Mike will talk about, to deliver that and to deliver a bit of benefit to the 5%. So, 10 to 20 basis points above the operating margin line, if we have that fortunate occurrence in F '12, that we outperformed the revenue.

**Brian Alexander** - *Raymond James & Associates - Analyst*

Great. That's helpful. Thank you.

**Mike Buseman** - *Plexus Corp - Executive Vice President, Global Manufacturing Operations*

Yes, I guess just to close on that, as Ginger commented in her opening statement, but with the comments around uncertainty, I remind you our absolute capacity around the globe is still pretty high, about 85%. In our minds, we have to continue the investments with Penang, Malaysia and Kiamen, China, and we're working for a decision process in Aradia, Romania. And that's with an eye towards, again, keeping ourselves positioned to accommodate this ongoing 15% gold growth rates.

**Operator**

Our next question comes from Sean Hannan of Needham & Company.

**Sean Hannan** - *Needham & Company - Analyst*

Yes, good morning. Actually most of my questions have been addressed, but, let me see if I can at least follow up on Coke just very quickly. You commented that this is on track, you expected this to be about a \$55 million contribution this fiscal year. So, just wanted to ensure that we are still thinking about that as the number? Or could this perhaps come in a little higher or lower?



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**Todd Kelsey** - Plexus Corp - Executive Vice President of Global Customer Services

So, Sean, this is Todd, I will address that. So, if you go back to the Q2 time frame, we talked about the \$55 million number and that was when we reset expectations. As we went beyond that or as we came into the Q3 announcement, we talked about it, there being some recovery there but we were less specific. So, it's clearly up from \$55 million and I classify it as solidly in the top 10 and moving beyond that as a customer.

**Ginger Jones** - Plexus Corp - Senior VP and CFO

Yes, Sean, I would say our view of F '12 now is that they continue this ramp, we could be back into the range that we expected for this program, on an annual basis, which was about \$50 million per quarter, for both the programs.

**Sean Hannan** - Needham & Company - Analyst

Okay, and when we say back into the range, do we mean, hitting that as a run rate at some point in the fiscal year? Or, that, that number is actually achievable, perhaps in fiscal '12?

**Ginger Jones** - Plexus Corp - Senior VP and CFO

I think that number is achievable in fiscal '12, based on their current ramp.

**Sean Hannan** - Needham & Company - Analyst

That's helpful. And then, switching to your top customer, you provided a little bit of commentary around the wire line space, expectations for next quarter as well as perhaps the return of growth in fiscal one of Q '12? Can you talk about your top customer, how they kind of align to the general trends you're seeing within the space? And then, any other notable or hopeful commentary would be useful.

**Dean Foate** - Plexus Corp - President and CEO

Yes, this is another those where we want to be cautious, I think the -- our top customer continues to, we believe, perform pretty in despite of a difficult market situation. And I think we are benefiting, generally speaking, from newer programs that we've won over the last several quarters. So, we've got -- I think that business for us is a little bit more stable and looks to have some pretty decent growth numbers in fiscal '12 as a consequence of program ramps. And, their position in the marketplace.

**Sean Hannan** - Needham & Company - Analyst

Terrific. Thanks so much for the color.

**Dean Foate** - Plexus Corp - President and CEO

Thank you.

**Operator**

(Operator Instructions) Our next question comes from Louis Misciosia of Collins Stewart.





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**Louis Miscioscia** - *Collins Stewart - Analyst*

Okay, thank you. Maybe you could talk a little bit more about the competition, obviously some big players really want to focus in on this high mix kind of stuff, at your analyst meeting, obviously you had commented to that, but I think you commented more that it was a long-term concern. Just wondering what you're seeing there more near term?

**Dean Foate** - *Plexus Corp - President and CEO*

Yes, again, I think that it's a big marketplace, the market sectors that we focus on, generally speaking, are under-penetrated. So, I think in some respects, the additional focus on this market is benefiting us, I think. I mean certainly, it's more – it's competitive out there and there's more participants on some of the deals. But I also think that the Plexus brand in these market sectors and our ability to demonstrate the regulatory compliance, and the execution capability of service levels for customers, gives us a competitive advantage when we go to compete for business. So, I don't think it's increased dramatically, but at the same time we're cognizant that were not the only folks out in the marketplace pursuing these, what people like to refer to as nontraditional market. But at this point, I don't think it's been hurtful to our ability to grow. I think that it's actually I think helping accelerate some of the OEMs that have kept a lot of this business internal to look elsewhere. And I think, multiple competitors out there making the case for that, and may help accelerate more of these customers to drive an outsourcing model.

**Louis Miscioscia** - *Collins Stewart - Analyst*

Okay, maybe just continuing on that thought, you know the medical area had been one of those areas that is seeing increased legislation. And maybe if you just comment, do you think that it's more linear? Or do you think because of that, we might actually see an inflection point in a much higher level of outsourcing coming? And maybe, also, comment on the level of penetration that you think, that the industry there has now?

**Dean Foate** - *Plexus Corp - President and CEO*

Just, well obviously there is a number of things that are as a consequence of the medical legislation. I think there is some problems by now because of the economy. Right, the unemployment rate, obviously, is causing a lot of people to be without healthcare. And, that of course puts pressure on the whole healthcare industry, the legislation is going to essentially apply a tax to companies that build medical equipment. And of course, that's going to put pressure on costs. And of course, one of the ways that these companies can reduce their cost then, is to consider outsourcing as a solution. So, I think that's good news for the industry.

And then of course, when Obama care, so to speak, kicks in you're going to see a whole bunch of people that are now going to be participating in healthcare industry in the US, that's going to create demand opportunities, we think, for the medical equipment providers. And then, the rest of the world, many of our customers are looking at the globe and opportunities for growth across the globe. And many of them are having quite a bit of success there, which is driving, also, growth. But generally speaking, the lot of those growth markets are what we'll call more simplified products that are appropriate to those market places. And therefore, more [cost] product, and so that's causing us to adjust our thinking in terms of servicing those customers with making sure that we have assets in the right places with the right regulatory compliance in those marketplaces, to service those customers.

So, I think, I'm biased. We think that the health care legislation is goodness for EMS perhaps, in the long run. But it's going to cause some pressure on that medical companies that try to reduce costs in the near term which will put pressure on us for while. But it will also free up more opportunities as they outsource more.



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**Louis Miscioscia** - *Collins Stewart - Analyst*

Okay, great. Thank you.

**Dean Foate** - *Plexus Corp - President and CEO*

You're welcome.

**Operator**

I'm showing no further questions at this time, and I would like to turn the conference back over to management for any closing remarks.

**Dean Foate** - *Plexus Corp - President and CEO*

Alright, well I'd like to thank everybody for the good questions. Obviously, hopefully, we provided you some good insight on the business. Again we're not trying at all to sound pessimistic. We're kind of a conservative group of people and we are trying to be pragmatic about what we are seeing in the market place. We believe, right now, that our fiscal Q4 is the bottom here, based on the three points that Todd worked through that, of course we see the Coca-Cola business continuing to ramp into Q4. We see the medical equipment customers working through their inventory problems. Hopefully that should get behind them as we enter Q1. And we're being quite successful winning new programs and we will continue to ramp those as we enter fiscal Q '12.

Now, but map on the new wins suggests that we can grow faster in Q '12. But we're just trying to suggest that if the economy really starts to soften even more from where it is now, and if that affects customers and marketing more dramatically than the effect we've already seeing; we are going to have to rely primarily on new program wins in F '12 to drive growth. And of course, that would mute the overall top line trajectory. And we want to make sure that we fine tune our financial model to continue to deliver shareholder value and EPS growth through F '12, even if the revenue line gets muted.

So, that's our messages about being pragmatic, we're not looking to substantially retrench here and backpedal. We felt quite good about our execution on bringing in new programs and getting a more balanced revenue projection across our other regions in which we participate.

So, thanks everyone for the participation of the call. And as always, feel free to give Ginger a ring if you've got any follow-ups. Thank you.

**Operator**

Ladies and gentlemen, this does conclude today's conference. You may all disconnect, and have a wonderful day.



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