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PLXS - Q4 2011 Plexus Corp Earnings Conference Call

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Plexus Corporation conference call regarding its fiscal fourth quarter 2011 earnings announcement. At this time all participants are in a listen-only mode. After a brief discussion by Management,



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we will open up the conference call for questions. The conference call is scheduled to last approximately 1 hour. As a reminder this conference call is being recorded.

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

Angelo Ninivaggi - Plexus Corp - SVP, General Counsel, Secretary

Good morning, and thank you all for joining us today. Before we begin I would like to establish that statements made during this conference calls 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 current difficulties in predicting the future results and actual results could differ materially from those expressed or implied in the 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 impaired disclosure statement in yesterday's press release.

The Company provides non-GAAP supplemental information. For example, our call today will reference return on investment 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?

Dean Foate - Plexus Corp - President, CEO

Thank you, Angelo, and good morning, everyone. Last night we reported results for our fiscal fourth quarter of 2011. Revenues were \$538 million with earnings per share of \$0.52. The customer forecast volatility that we experienced during much of fiscal 2011 continued doing our fourth quarter. While the volatility was broad based, demand reductions in our Wireline Networking sector were the most pronounced with revenues down 17% sequentially below our earlier expectations for a challenging quarter in this sector. Despite this tough environment, we delivered results that were within our guidance range.

While fiscal 2011 was not the excellent year that we thought it might be when we set our full year plan at this time last year, I believe the Company performed well in light of the macroeconomic environment that drove end market volatility and dampened customer forecast as the year unfolded. For the full year, revenues grew nearly 11% to \$2.2 billion, a record level for Plexus, and we delivered return on invested capital of 15.6%, 210 basis points above our weighted average cost of capital. We believe the combination of return on invested capital above our weighted average cost of capital is fundamental to delivering long-term shareholder value.

During the year, we grew revenues in all of our market sectors with the single exception being Wireless Infrastructure where we experienced a significant customer dislocation of the [fiscal Star] business. Additionally, we grew revenues in each of our 3 regions, the Americas, EMEA and APAC and we grew revenues in our Engineering Solutions business, an important value stream differentiator for Plexus.

While we carefully manage our cost structure and capital investments in a turbulent year, we made significant progress on the number of strategic growth initiatives. We advanced our strategy in the [Amer] region by investing in regional leadership talent to drive our go to market strategy and improve our execution. Consistent with our strategy to grow our Engineering Solutions



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business globally, we opened a new design center in Darmstadt, Germany, this investment strengthens our product realization brand in the region, complementing our capabilities in Scotland and increasing our Engineering Solutions footprint to 6 design centers around the world. We completed an agreement for a land acquisition and developed design plans for an anticipated new facility in Arad, Romania to replace our leased facility that has served as our startup solution in this lower cost region.

In the APAC region, we commenced construction of our fourth facility in Penang, Malaysia and our second facility in Xiamen, China. In the America's, we made meaningful progress refreshing our facilities to support the evolving value proposition of manufacturing in this region. And on the IT front, we deployed the next generation of our preparatory Global Shop Floor system that drives standardization of the manufacturing controls improving productivity and execution while enhancing our agility to customer requests across our global footprint.

We continue to make progress in our working capital initiatives which are intended to drive systemic improvement in inventory management levels while preserving the agility and flexibility required by our customers. And finally, we completed a \$200 million share repurchase that we believe returns meaningful value to shareholders.

Turning now to some insight into the performance of our market sectors during our fiscal fourth quarter and our current expectations for our fiscal-- for our first fiscal quarter of 2012. Our Wireline Networking sector was down 17% sequentially in fiscal Q4 below our expectations for a weak quarter when we established guidance. As a reminder, Q3 was the last significant production quarter for the Emerson -- for Avocent business that has exited out of Plexus, accounting for about one-third of the sequential revenue decline for the sector. Additionally, 4 of our top 10 customers had meaningful revenue misses relative to their earlier forecasts.

Our Wireless Infrastructure sector was down approximately 16% sequentially in fiscal Q4 consistent with our expectations for the quarter as end markets remained soft for customers in this smaller sector. For fiscal 2012, we are combining our Wireline Networking sector and our much smaller Wireless Infrastructure sector into a single sector that we refer to as our Networking and Communications sector going forward. We're affecting this change in the categorization of revenues to more closely align with how our customers view their marketed identity, which we believe reflects the convergence of technologies in this space.

Looking ahead to our fiscal first quarter of our newly formed Networking and Communications sector, we currently anticipate that the forecast volatility we've been experiencing will continue with mix performance among our customer base. Our current expectation is that the sector revenues will grow in the mid to high single-digit percentage range.

Our Medical sector revenues were down 2% sequentially in fiscal Q4, consistent with our guidance last quarter as some customers continue to trim inventory positions while others experience lackluster end market demand. Looking to Q1, we're anticipating another soft quarter for our Medical sector with revenue declining again in the low single-digit percentage range. Our Medical sector revenue outlook for Q1 deteriorated from our expectations during last quarter's call as 8 of our top 10 accounts are now anticipating a sequential decline. Again, the story is soft end market demand coupled with inventory adjustments.

Revenue in our Industrial Commercial sector was up sequentially about 21% in Q4, a result that was softer than our earlier expectations as a few customers experienced softening end market demand. Looking to our fiscal Q1, our expectations have changed dramatically from the Q1 outlook we provided last quarter. We now expect revenues in our Industrial Commercial sector to decline in the mid-teens percentage range as 18 of our top 20 customers in this sector are forecasting lower demand.

Our Defense Security and Aerospace sector was down sequentially about 2% in Q4 in line with the earlier expectations, we currently expect Q1 to be flat to down.

New business wins. During the fiscal fourth quarter, we won 24 new programs in our Manufacturing Solutions group that we anticipate will generate approximately \$182 million in annualized revenue when the programs are fully ramped in production. This was a solid performance and the strongest results since our fiscal first quarter of 2010. Our funnel of manufacturing



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opportunities remain strong during the quarter at approximately \$1.9 billion in qualified opportunities. About one third of the new business opportunities are in our Medical sector and with another third in our Industrial Commercial sector.

Our Engineering Solutions group also enjoyed a strong quarter of new program wins during Q4 totaling approximately \$18 million. This was a welcome improvement in our Engineering Solutions business following a concerning [wins] performance in our third quarter.

Turning now to our guidance. Continued volatility and customer forecast and uncertainty in end markets are reflected in our fiscal first quarter guidance range of \$510 million to \$540 million. At that level of revenue, we anticipate earnings per share of \$0.44 to \$0.49 excluding any restructuring charges and including approximately \$0.07 per share of stock-based compensation expense. The mid point of this guidance range suggests that our fiscal first quarter revenue may be modestly down sequentially when compared to the fiscal fourth quarter of 2011. Our guidance does not reflect any revenues that may be at risk due to the evolving supply chain disruptions as a consequence of the flooding in Thailand. As you likely know, we have no operational assets in Thailand. While some of our customer programs use components that are currently sourced in Thailand, we believe that we have mitigated much of the exposure for the fiscal first quarter. We're working to fully quantify the potential impact given channel inventory positions, allocation priorities and the availability of alternate sources of supply to mitigate the risk beyond our fiscal first quarter.

Looking further ahead to the full year fiscal 2012, our current stance continues to be pragmatic. The continuing economic malaise is unquestionably affecting the performance of our customers end markets resulting in poor forecast visibility into fiscal 2012. Given the uncertain environment, we have taken actions to calibrate our cost structure to fiscal 2012 growth that we currently anticipate could be meaningfully below our enduring 15% organic revenue growth goal. Those actions include reductions in headcount in each of our regions, reductions in our planned capital expenditures for fiscal 2012, and strict controls on new hiring and discretionary spending. Optimistically, the strength of the Plexus brand, the strength of the new business wins and the healthy funnel of opportunities provides us confidence that we have a winning strategy that delivers long-term growth and shareholder value. Ginger?

Ginger Jones - Plexus Corp - SVP, CFO

Thank you, Dean. As Dean mentioned earlier, fourth quarter revenue was within our guidance range in a very volatile quarter. Gross profit was 9.3% for the fiscal fourth quarter. This was inline with our expectations and as expected below the fiscal third quarter. This reflected the mix of revenue during the quarter and the negative leverage from lower revenue. Selling and administrative costs were \$28.3 million, slightly above our expectations and as expected less than our spending in the fiscal third quarter. Selling and administrative expense in the fiscal fourth quarter included approximately \$500,000 of severance expense that was recognized during the quarter and not included in our original guidance. The severance expense was primarily related to head count reductions in the Americas and EMEA region. SG&A costs as a percentage of revenue increased slightly this quarter to 5.3%. Operating profit was slightly lower than our expectations at 4.1% as a consequence of higher SG&A.

EPS in the fiscal fourth quarter was impacted by share repurchase activity during the quarter as market conditions lead us to repurchase 1 million shares under our previously announced share repurchase program. These repurchases totaled \$30 million at a weighted average price of \$28.86 per share and completed our authorized \$200 million share repurchase program at a weighted average price of \$31.69 per share. The completion of the share repurchase program in the fiscal fourth quarter contributed approximately \$0.01 of diluted EPS above our original expectations. This was offset by \$0.01 of stock-based compensation expense that was higher than our guidance.

Return on invested capital was 15.6% for the fiscal fourth quarter and the full year, well above our weighted average cost of capital for F 2011 of 13.5%. For fiscal 2011, we generated \$13.2 million of shareholder value, which we define as the economic spread of ROIC over our weighted average cost of capital multiplied by our average invested capital. Our efforts to reduce working capital resulted in decreases during the fiscal fourth quarter, a very good result in a quarter that saw significant forecast



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volatility and the continued ramp of new programs. We saw decreases in both the dollar amounts and the days of cash cycle. Cash cycle days decreased by 5 days from the prior fiscal quarter to 70 days at the low end of our expected range of 70 to 74 days.

I'll now get into the details by balance sheet line items. Days and receivables decreased by 1 day to 48 days. This decrease was based on the timing of payments from customers and within our normal range of days and receivables. Days in inventory were 85 days, down 3 days from our results in the prior fiscal quarter. This is now the third consecutive quarter of reductions in both inventory dollars and days. The dollar valued inventory decreased by approximately \$28 million, or about 6%. We saw reductions during the quarter with significant forecast volatility while still supporting our customers needs for flexibility and agility. Accounts payable days increased by 1 day to 57 days. Days of cash deposits were in line with the prior fiscal quarter at 6 days at \$29.8 million. These are deposits received from customers to offset the risk of inventory that we hold on their behalf.

Free cash flow generated during the quarter was \$68 million, with year-to-date positive free cash flow of \$88 million. This was very strong cash generation, the result of good working capital management and the impact of our working capital initiatives. We also had lower capital expenditures as we adjusted or delayed our spending in response to forecast volatility. During the quarter we spent \$27 million in capital expenditures with \$18 million of that for footprint expansion in Penang, Malaysia and Xiamen, China. For the full fiscal year we spent \$74 million in capital expenditures, slightly below our previous estimate of \$80 million. We have aggressively managed our capital expenditure plans to both recognize the uncertain macro environment and continue to prudently invest for future growth.

I'll now turn to some comments on the fiscal first quarter of 2012. Gross margin is expected to be in the range of 9.1% to 9.3%. Although this is lower than our targeted model of 10% and slightly lower than our gross margin in the fiscal fourth quarter, it does reflect head count reductions and cost management that was implemented in response to the near term lower revenues and reduced visibility going forward. 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 first quarter of 2012 is expected to be in the range of \$26 million to \$27 million, lower than our spending in the fourth quarter of fiscal 2011.

Depreciation expense is expected to be approximately \$12.8 million to \$13 million in the fiscal first quarter, up from \$12.6 million in the fiscal fourth quarter. This results in expected operating margin of 4.1% to 4.2% in line with our results in the fiscal fourth quarter. We are estimating the effective tax rate for fiscal 2012 will be 8% to 10%. This is an increase from fiscal 2011 based on the improved outlook for US operations and for changes in the mix of forecasted earnings between taxing jurisdictions.

Our expectations for the balance sheet are for both days -- for both dollars and days in inventory to increase slightly in the fiscal first quarter and for accounts receivable and accounts payable to remain flat. Based on the forecasted levels of revenue, we expect these changes will result in cash cycle days net of cash deposits of 72 to 74 days for the fiscal fourth quarter.

Our capital spending forecast for fiscal 2012 is now approximately \$90 million to \$95 million. This is an adjusted capital spending plan in response to economic uncertainty and the volatile customer forecast while continuing to invest for growth in key regions. With the adjustments in forecast, our global [adds total] capacity is now 81%, down from 85% last quarter. As discussed in our earnings release and as Dean just mentioned, we remain optimistic about our continued organic growth and we will continue to expand our footprint in close proximity to our existing locations.

Looking ahead to fiscal 2012, we have completed our annual review of our weighted average cost of capital and have reduced our internal estimates from 13.5% to 12.5% largely as a result of the additional long-term debt completed in fiscal third quarter. We remain committed to our long term 5-10-5 financial model which includes ROIC of 500 basis points above our weighted average cost of capital. For fiscal 2012 this would be 17.5%. We believe this 500 basis point spread is enough to absorb any volatility in WACC and provide a compelling investment for shareholders. Even in periods such as F 2011 when we deliver an economic spread of less than our targeted 500 basis points, we still deliver significant economic value to shareholders, a 10% gross margin target and finally a 5% operating margin target. We will try to protect the operating margin whenever possible by managing volatility in gross profit through spending discipline.



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This model is designed to generate enough cash to support 15% to 18% revenue growth. We expect to fund investments in fiscal 2012 with our existing cash and also generate free cash flow. With \$240 million of cash and 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 limit yourself to 1 question and 1 follow up. Operator, please leave the line open for follow-up questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Jim Suva from Citi.

Samuel Mann - Citigroup - Analyst

Good morning this is actually [Samuel Mann] on behalf of Jim. I have 2 quick questions. One, if I look at the Coca-Cola project, it's now a 10% customer which implies the program has reached prior guidance of annualized run rate of \$200 million. Is there room to grow this customer or should we assume the program is fully ramped at this point?

Dean Foate - Plexus Corp - President, CEO

Well I think that there's room to grow the customer but I don't think that given the current economic environment that I would suggest that it would be prudent to build anything further than the kind of run rate that Ginger has been talking about which is about a \$200 million run rate for the full year. I think that's prudent.

Samuel Mann - Citigroup - Analyst

Great, thanks, Dean. And then I know that you've mentioned for fiscal year 2012 growth expectation should be meaningfully below the 15% growth goal. Can we dial in maybe on some more granularity of what that means?

Dean Foate - Plexus Corp - President, CEO

Well Samuel, I'd sure like to dial-in on it, but right now the street I think is, at least before the call, was dialed in at about 6% for the full year. We've been talking, or at least talked on the last call, that we were recalibrating our cost structure to deliver on our key metrics at around kind of mid to high single digits to low double-digit growth. I think anywhere in that sort of 6% or so range or better is probably a good number as any right now. And the reason I say that is because we're just having a very difficult time getting forecast to stabilize from our customers in our quarters.

We just came through a year where we originally had a forecast that suggested revenues could be up and we're looking at the year this time last year almost 20%. Now we thought that that was a little bit overly aggressive from the customer base and so we dialed that down internally. But as the year unfolded, we saw significant degradation in customer forecasts early in the fiscal year. Last year we saw a little bit of stabilization kind of in later Q2 early Q3 and then it's been a march south in customer forecast since. We just-- the quarter we just came through we guided it quite conservatively, customers forecasts generally degraded through the quarter. We managed to deliver a quarter that was in the guidance range, but you can tell from our forward guidance right now in Q1 that customer forecast are down quite dramatically and the new business wins that we're getting, which are doing well, are just not enough to offset the floor that's falling out from existing programs. So we just haven't figured out where



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the bottom of this thing is yet and seen enough stabilization that we feel comfortable calibrating everybody to what's going to happen next year.

Now having said all that, we continue to do really well in the marketplace with new business wins. So it's a really challenging kind of environment, we're bringing in a lot of new programs, a lot of customers but at the same time, the programs that we're currently manufacturing are just not seeing good demand and we're not getting good calibration from the customers going forward. There certainly is-- there's isn't a lot of confidence out there with customers in anything more than a quarter or so.

Samuel Mann - Citigroup - Analyst

Got it,, thank you, Dean.

Dean Foate - Plexus Corp - President, CEO

You're welcome.

Operator

Brian White from Ticonderoga Securities.

Brian White - Ticonderoga Securities - Analyst

Hello, Dean. On the weakness Industrial Commercial in the December quarter, can you just parse that out? You've got a Coca-Cola program, is that going to grow sequentially and the rest of the business declines or is everything going to decline in the December quarter?

Dean Foate - Plexus Corp - President, CEO

I'm going to let Todd take a shot at that because he's really close to the customers at this point. So go ahead, Todd.

Todd Kelsey - Plexus Corp - EVP- Global Customer Services

Sure, good morning Brian. So basically if we looked at the Industrial Commercial sector in Q1, it's a situation where we're seeing significant broad based downtrends from our customer base. As Dean mentioned, 18 of the top 20 customers are down. Coca-Cola would be 1 of them. You'll be able to figure that out when you see the numbers from next quarter that they won't pop into that 10% range now. Looking at Coca-Cola, Dean mentioned earlier, we still feel comfortable with the guidance that Ginger has provided previously with respect to revenue for fiscal 2012, the shape of the curve is just changing a bit right now.

Brian White - Ticonderoga Securities - Analyst

And if we look at the only SemiCap, what type of sequential decline in the SemiCap market don't think you'll see in the December quarter?

Todd Kelsey - Plexus Corp - EVP- Global Customer Services

The reduction in SemiCap is substantial. I mean that's a big piece of the Industrial Commercial down. It's very significant.



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Brian White - Ticonderoga Securities - Analyst

I mean how's-- 1 of your competitors said down 40% in 1 quarter, is that the magnitude?

Todd Kelsey - Plexus Corp - EVP- Global Customer Services

That's about appropriate. Yes, I'd say 30% to 50% depending on the customer.

Brian White - Ticonderoga Securities - Analyst

Great, thank you.

Dean Foate - Plexus Corp - President, CEO

You're welcome.

Operator

Wamsi Mohan from Bank of America.

Wamsi Mohan - BofA Merrill Lynch - Analyst

Yes thank you, good morning. Dean, I was wondering if you could talk about how broad based the restructuring efforts are, where are they focused? It sounds like the biggest delta and forecast is coming from Industrial, but how broad based are these programs and how long do expect them to sort of persist as the March quarter another quarter were you anticipate that there will be more restructuring work going into the March quarter?

Dean Foate - Plexus Corp - President, CEO

I'm going to let Ginger talk about restructuring and where we took the head count out. Go ahead, Ginger.

Ginger Jones - Plexus Corp - SVP, CFO

Good morning, Wamsi. We have done in the quarter that we just completed, I'd say a modest headcount reduction. It was primarily targeted to sites in EMEA and the Americas where we had excess capacity given some of these forecast reductions. I'd say it's been only modest so far for 2 reasons. First, we had been managing headcount at the sites very thoughtfully as we've come through this period of forecast volatility. So we did not have significant amounts of heads that needed to be cut.

And then secondly, we are continuing to see a lot of activity around launching new programs. And that, as Dean mentioned earlier, put us in a difficult position. There's still activity there in many of these sites, even if there's not a significant amount of revenue yet. So I'd say that we have had modest restructuring. We would think that there will be modest restructuring going forward unless the forecast changed significantly. So we'll monitor that as we go and try to make adjustments to headcount where appropriate.



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Wamsi Mohan - BofA Merrill Lynch - Analyst

Okay, thanks Ginger. And as a follow up, last year Plexus was quite early to call a slowdown in demand in the June quarter back in January. And you guys know that you have a very rigorous 6-month planning and forecasting methodology. What's your best assessment of the March quarter at this point? Do see that as a quarter that can grow in the year-on-year basis? Thank you.

Dean Foate - Plexus Corp - President, CEO

Boy I wish we could calibrate you on that. But I just think it would be nonproductive for us to take a guess at what's going to happen in March. I mean at some point you would think there's a bottom here, but we've seen a lot of movement in customer forecast all year long, at some point like you say, it's got to find its bottom. You look at the-- it was just asked about, someone asked about SemiCap, Brian did, and you can't get much lower, right, or you're not doing anything. So you cannot go negative with those customers. So yes I think at some point we're going to find the bottom here, I'm just not ready to say we're there yet.

Wamsi Mohan - BofA Merrill Lynch - Analyst

Okay, thanks, Dean.

Dean Foate - Plexus Corp - President, CEO

You're welcome.

Operator

Brian Alexander from Raymond James.

Brian Alexander - Raymond James & Associates - Analyst

Yes, Dean, how much of the weakness in revenue is coming from existing programs versus push-ups of new programs versus potentially program or customer losses to your competitors? I know we talked about this last quarter, but it's hard to reconcile the new wins \$570 million in FY 2011 and your expecting revenue to grow less than \$200 million in FY 2012 and it seems like Coke could be a big part of that. So I'm just struggling to reconcile your outlook with the pretty impressive wins that you guys have put up over the last 4 quarters.

Dean Foate - Plexus Corp - President, CEO

Yes I think that's a fair question. We're obviously struggle to reconcile that as well which is why we're (inaudible) to the Company right now because they said the activity level is high. And I might let Todd talk about this a little bit, but certainly the slope of the line for the new business wins is dampened as well because they're affected by the same end market characteristics and dynamics that the existing programs are. So I will let Todd take a whack at this.

Todd Kelsey - Plexus Corp - EVP- Global Customer Services

Sure, so Brian at will try to hit this may be in sections here, but really the primary factor is I see it as the existing programs. And if you look at across our various market sectors, Industrial Commercial 18 of the top 20 are down, Medical 8 of our top 10 are down quarter on quarter, Wireline Wireless, or our new Networking Communications sector. Basically the percentage of customers



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down isn't as high, but the downs are very substantial, the ones that are down. So we're seeing a situation-- and then DSA is relatively flat, so we're seeing relative strength in that market sector right now compared to the other. So it's really-- there's a substantial impact from our existing programs.

Now if we look at the new program wins there is I would call it a pause or a slowdown in the ramps of many of these programs due to the macroeconomic uncertainties. So I think that the revenue is there but it hasn't materialized to the level that we anticipate yet. So that's having an impact as well. And then if you look at loss of customers and we talked about really the 2 big ones from last year, there really isn't anything that I would say substantial beyond that. Our customer base is intact, we feel like we have strong relationships with our customers, and for the most part are gaining share with the majority of them. So we feel good about that situation. But it's really the existing book of business that is largely driving the situation that we're seeing right now.

Brian Alexander - *Raymond James & Associates - Analyst*

And maybe just a follow up, Ginger, on the margins, I don't know if you touched on this earlier but when would you expect to be back at that 5% operating margin target? I think you guys previously said you'd hope to be there for this year, but that's probably off the table, but maybe there's a quarter in the back half that you expect to get there?

Ginger Jones - *Plexus Corp - SVP, CFO*

That would be our current view is that we would hope to get back. We did a lot of work over the last 2 quarters to calibrate our cost structure, as we said last quarter, we thought we could get there with revenue growth in the high-single digits. So that would still be our expectation and if we can get there for a quarter in F 2012, we would hope to deliver that 5% operating margin.

Brian Alexander - *Raymond James & Associates - Analyst*

Thanks, good luck.

Ginger Jones - *Plexus Corp - SVP, CFO*

Thank you.

Operator

Amit Daryanani from RBC Capital Markets.

Amit Daryanani - *RBC Capital Markets - Analyst*

Yes, thanks a lot, good morning, guys. Maybe just a question the December quarter, could you just talk about, you guys are talking about the guide being down about 2.5% sequentially. Could you just talk about the comfort level on the guide especially on the assumption that infrastructure business could be up mid-to high single digits? Is that growth in the segment more a reflection of new ramps that are coming in or are you just expecting some seasonal tailwinds in the December quarter?



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Dean Foate - Plexus Corp - President, CEO

Well it's a combination of both of those things, but clearly we've got some new ramps in the quarter. As Todd said there's a lot of volatility in that Network and Communications sector. And of course, no one has asked specifically yet about Juniper, but there is continuing concerns too about whether or not our share is intact with Juniper, and I just would like to take the opportunity to address that. I think Q4 came in largely intact with Juniper so we had a pretty good quarter, or at least it matched with what our expectations were. And we continue to expect a pretty good strong growth quarter here in Q1 with Juniper in part because of new program wins but also just because they look to be doing quite well with the product lines that we manufacture. So we haven't seen any share shifts away from Plexus with Juniper impact, we feel that we've gained some share at least on a longer term basis based on some of the newer technologies that they're bringing into the marketplace.

So I think there certainly is some risk in Q1 because as we went through the whole thing the growth is pretty well tilted to this Networking Communications sector with a little bit of help maybe from some of the others not being so soft as they were in the past quarter. But a lot of it is around new products coming into the marketplace and a little bit of it I would say you can attribute to typical seasonality in terms of capital budgets.

Amit Daryanani - RBC Capital Markets - Analyst

Got it and then if I just follow up on the Coke program, I think you guys mentioned that you still feel good about \$200 million but the shape of the curve is changing, could you just kind of dig into that a little bit? I mean is December going to be down 15% to 20% and you ramp back up? And is that because of program product transition or some other drivers over there?

Dean Foate - Plexus Corp - President, CEO

Well I mean my view on this is that this is a new technology coming into the marketplace and it is a new technology certainly for Coke to deploy in the marketplace and they're trying to get calibrated on how to more accurately forecast how it's going to rollout. We-- they turned us on pretty strong here in our fourth quarter, we ramped up to a pretty high production rate. Delivered a ton of product to Coca-Cola as you can guess-- estimate from our revenue numbers. I think we got a little ahead of Coca-Cola's ability to deploy those and so they backed us off somewhat here in Q1, which kind of reshaped what we would expect to do for the full fiscal year.

So we'd like things to be level, all right. Level loaded or at least kind of a nice consistent slope to the line, the world doesn't quite work that way. But we're not overly concerned other than it puts a little bit of challenge in our lap in terms of managing costs and things as you get the kind of volatility in the rollout of that technology. But like I said, at the same time we shouldn't necessarily be surprised because of the complexity of the technology and the newness of it to the marketplace.

Amit Daryanani - RBC Capital Markets - Analyst

Perfect, thank you.

Dean Foate - Plexus Corp - President, CEO

You're welcome.

Operator

Sherri Scribner from Deutsche Bank.



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Kevin LaBuz - Deutsche Bank - Analyst

Hi, this is Kevin LaBuz on the behalf of Sherri. Just 1 question for me today. You mentioned on the call that you were seeing some impact from the flooding in Thailand, so I was just wondering what segments and end markets are impacted and what are you seeing there? Thank you.

Dean Foate - Plexus Corp - President, CEO

Yes, my commentary was really around supply chain more so than end markets, and again I just want to repeat, we don't have any manufacturing assets in that marketplace. And so my comments were around mitigating any sort of disruption to supply. And so I'll let Mike Buseman, who is very close to that to, just in terms of bracketing the extent of the risk and kind of what we're seeing at the moment.

Mike Buseman - Plexus Corp - EVP- Global Manufacturing Operations

As Dean mentioned, again we have no assets there, so from a Manufacturing/ Engineering perspective, no exposure. We don't really see Thailand as an end market for most of our customers. So I think the end market impacts probably pretty insignificant. Our real focus now is obviously on our supply chain, supply chain partners. And I think the way we frame it now for the current quarter, we think we really mitigated the exposure we would see for the next 3 months. We worked with our supply chain partners with material that's in channels. And again, quite honestly much like the tsunami situation last March, we not go into a mode where we go out farther in the planning horizons, start thinking about probably fiscal quarter 2 and 3 potential impacts. So again, for the current quarter we felt pretty comfortable. I do have to qualify that a bit with it's a pretty dynamic and a pretty changing situation in Thailand right now. And I think all of us have seen over the last 7, 8 days how much movement there's been in the messaging and potential impact. So everything I think I just said is qualified with what we know today and we'll watch it as we go forward.

Dean Foate - Plexus Corp - President, CEO

Yes, I would just add that generally speaking we don't have a tremendous amount of revenue that would be at risk even if the supply of the components that are in question would come to a complete stop. Now the question is whether or not they might be secondary effects to that and whether or not the alternate sources of supply would come under allocation and et cetera et cetera where it starts to ripple more broadly to other suppliers outside of Thailand as a consequence of people redirecting supply. But we'll just have to see how that unfolds and how the supply chain picks up that capacity that we believe is going to be out of play for a fairly significant amount of time.

Kevin LaBuz - Deutsche Bank - Analyst

Excellent, thank you. So it's fair to say that the components is your biggest concern there? I mean is there anything specifically or specific that you're concerned about or is this--? Thank you.

Dean Foate - Plexus Corp - President, CEO

Well we have some product that utilizes disk drive so we have the resource, those disk drives if that capacity doesn't come back online. There's certain components that are in the-- aside from those kind of disk drive assemblies, there's certain components that are sourced out of that market place. But typically there are alternate sources of supply for -- at the component level.



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Kevin LaBuz - Deutsche Bank - Analyst

Excellent, thank you.

Dean Foate - Plexus Corp - President, CEO

You're welcome.

Operator

William Stein from Credit Suisse.

William Stein - Credit Suisse - Analyst

Thanks. I just want to revisit the long-term growth view that the Company has. I think it's 15% to 18% and here we are fiscal 2010 having grown about 2011 and fiscal 2012 certainly going to be well below your targets. Are you concerned about your ability to meet that 15% revenue growth goal on a long-term basis? Do you feel you've got the advantage in the market to drive that kind of growth going forward?

Dean Foate - Plexus Corp - President, CEO

Well I'm not and if we went back 1 more year you'd find that we grew I think 24%, 25% in fiscal 2010. And if you look at our compounded annual growth rate, I think it hovers right around 14%. So I think that we're really just seeing a difficult end market-- difficult end market situation and that's muting what's really happening to our customers and of course is offsetting the new business wins. So when I look at the business, I feel really good about the number of new programs we're winning. If you think fiscal 2009 where we saw down 12%, Plexus was on a relative basis came through that quite well. We were profitable while we came-- while we were down 12%, and our 12% down compares to others that were down 25% to 30% in the marketplace and our customers who were down largely in that 20% range. So we won a lot of new business through that cycle and that new business became very evident-- of the leverage of the new business became very evident when the economy started to recover and we saw this 25% growth in 2010.

Now we're going through a longer, feels like longer cycle, of challenging end market demand. We're starting to see new business opportunity pick up, our funnel head expanded a little bit here the last couple of quarters we had a very strong win rate this quarter. There's a number of really good opportunities in the funnel that we're working hard on in the quarter we're in right now. We have as good a shot as any as having another good strong win quarter. In the current quarter, we just need the end markets to stabilize for customers to find a bottom so that we can start to fill some of that growth. And if we start to see the end markets uptick I believe we're going to have another very strong revenue year when that turn comes.

But right now we're-- like I said we're just seeing the bottom continuing to erode here in the programs that we manufacture, which is makes for just a challenging environment. But it also gives us the confidence to continue with our capacity that we think is really important. It's 1 of the things that's attracting the new business as a Company is the available capacity and our reputation for execution. So we're not concerned about the broader opportunity here for long-term growth in our markets.

William Stein - Credit Suisse - Analyst

Great and then 1 more tactical question on Coke, do you expect that to return to be a 10% customer at some point in the next fiscal year?



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Dean Foate - Plexus Corp - President, CEO

I think it's very likely that it will.

William Stein - Credit Suisse - Analyst

Okay. Thanks Dean.

Dean Foate - Plexus Corp - President, CEO

You're welcome.

Operator

Louis Miscioscia from Collins Stewart.

Louis Miscioscia - Collins Stewart - Analyst

Okay great, thank you. So just to look at this a little bit of a different way and it sounds like you have answered the question couple times already, but if we look at it from a sequential growth standpoint, even if we model the high end of guidance for December, really going to have to have pretty incredible year from a quarter to quarter standpoint just to sort of hit that 6%. So I guess my question would be is the 6% sort of like the best case scenario? Or maybe should we think about 0 to 6% from a fiscal 2012 revenue standpoint?

Dean Foate - Plexus Corp - President, CEO

I'm trying really hard to stay away from guiding fiscal 2012 because no matter what I say it's likely to be very wrong either on the downside or the upside because there's just so many moving pieces and such. And like I said, the customers right now are just loathe to try to give you anything past the quarter or so because their confidence is just shot because they've been consistently wrong. So I don't-- I think like I said I think 6% is as good number as any. I think there's as good a shot that it could be much better than that or potentially much worse if the economy just kind of tips over. But based on the new business wins I feel like we're-- somewhere we're finding kind of the bottom of this thing and then we're going to start to see some evidence of growth based on the incremental business, but we just haven't found that spot yet. I don't know how I can say it any other way.

Louis Miscioscia - Collins Stewart - Analyst

Okay switching over to Coke for a second, can you give us an idea as to how big the ramp was quarter to quarter or where Coke was in third quarter from a revenue standpoint, was it about half the dollar amount that you then saw here in fourth quarter?

Dean Foate - Plexus Corp - President, CEO

We got our experts looking at the spreadsheet.



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Todd Kelsey - Plexus Corp - EVP- Global Customer Services

That's right, it was a pretty substantial ramp. It more than doubled quarter to quarter, so really again the idea was to really test out the manufacturing capabilities to fill up the supply chain for Coca-Cola to be able to deploy this, so it was a pretty substantial ramp.

Louis Miscioscia - Collins Stewart - Analyst

Okay great. And I guess the last question is that \$182 million in wins in the quarter was great, so congratulations on that. And you had obviously a comment, maybe if you could just dig in a little bit deeper that it sounded like the pipeline for new wins for the December quarter is also pretty strong maybe around that same level?

Dean Foate - Plexus Corp - President, CEO

Well yes, the pipeline is there and the opportunities are there. Todd, do you want to provide any additional color, that's up to you, go ahead.

Todd Kelsey - Plexus Corp - EVP- Global Customer Services

Yes, so we're getting off to what we feel is a pretty good start for this quarter with new programs that are already won and there's a number that are late stage that are quite substantial. So we're optimistic that we're going to have a good quarter. Now we're still only less than a month in so things could change, but we feel pretty good about the situation that we're in right now. I know on the last call too Dean mentioned that there's an increasing amount of what I would call substantial or large opportunities and those, none of those are the \$182 million and they're pretty much all active yet. So we feel pretty good about the situation.

Louis Miscioscia - Collins Stewart - Analyst

Good luck on the new fiscal year.

Todd Kelsey - Plexus Corp - EVP- Global Customer Services

Thank you.

Operator

Sean Hannan from Needham & Company.

Sean Hannan - Needham & Company - Analyst

Yes, good morning. Just to see if I can readdress some topics that were discussed a little earlier in Q&A. When you think about the volatility and the reduced forecast, can you perhaps provide, Dean maybe your thoughts or Todd your thoughts, the relative degree of what you chalk up to end demand in the spaces, and maybe other than SemiCap, versus the competitiveness and positioning of your customers products in a more discerning environment perhaps not having strong or leadership momentum versus its competitors?



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Dean Foate - Plexus Corp - President, CEO

Yes, I think that's a good question to ask in a difficult market. In other words, you're suggesting that maybe our customer base is, at least some of them, aren't in that good of a competitive position and therefore they're taking it on the chin in a difficult market. I think what-- there are some customers I would say that are smaller companies that have limited product portfolios. And I think with some of those customers obviously the competitive environment makes it difficult for them because they don't have a diversified portfolio that they can rely upon. Now whether or not that's the question of end market competitiveness or just more sensitivity to the end market overall for them being soft and their inability to, like I said to put their energies into other products that are in a portfolio that they can't fall back on that. So they-- we're seeing some of those customers like I said that have a narrow product portfolio having a difficult time and having quite a bit of volatility in their performance.

When you think about a number of our customers we believe there are others that are very well positioned we think. When you think about the medical space for instance, where we have a portfolio of customers that are very much industry leaders in that space, they typically have broader portfolios of products. But generally you'd have to say in that space it's an end market challenge overall that is impacting many of them in a similar way. There's just a lot of delays in purchasing activity around medical instrumentation. There are -- there's just a backdrop of challenges there that's making it difficult for their space.

Now I would say that there are some little pockets of strength, I think when you think about certainly some of the, what I'll call, alternative energy space is a little bit challenging. There's another set of companies many times that have somewhat narrow portfolios and then you have some of the companies that are focused on oil and gas in that space, there's quite a bit of strength. There's good strength I would say right now in Aerospace. So there's-- it's not that everything is bad, certainly there is pockets of strength in these marketplaces.

Sean Hannan - Needham & Company - Analyst

But that--

Dean Foate - Plexus Corp - President, CEO

Go ahead.

Sean Hannan - Needham & Company - Analyst

Go right ahead and finish if you'd like.

Dean Foate - Plexus Corp - President, CEO

Well I don't know that I have a whole lot more to say about it. Todd do you--?

Todd Kelsey - Plexus Corp - EVP- Global Customer Services

I think you covered it well.

Sean Hannan - Needham & Company - Analyst

That's fair and thank you for that. So and then secondarily, if you can think about understanding that we have the economic malaise here and it's impacting all of your business and Todd spoke a little bit around impacts to new programs and perhaps the pace of those ramps, can you provide us with a little color when you think about new programs what you expect to ramp



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either in December or in coming quarters, a little bit of detail around how we should think about the segments? Where can we expect more material program ramps, anything coming off? And then kind of as a part B to that, for the new programs that are ramping with greater magnitude, how do you characterize the risk perhaps based on whether this is an entirely new customer or new product category et cetera?

Dean Foate - Plexus Corp - President, CEO

Yes, go ahead, Todd.

Todd Kelsey - Plexus Corp - EVP- Global Customer Services

Sure. So I mean it's really hard to give any strong rule of thumbs of program ramps. I mean I tend to like to think about it that the wins tend to materialize in about a year, but that's not a hard and fast rule. And if you look at certain sectors for instance, our Networking and Communication, they can have quite aggressive ramps. And there's a number-- I mean if we look at the \$182 million, there's a couple of programs in there that are going to have more aggressive ramps. Although even in that space there's other customers of ours that tend to award very much in the prototype phase or very early in the development and that takes longer for it to materialize even in the case of the Networking and Communication.

Other sectors for instance, the Medical and Defense/Security/Aerospace, particularly Aerospace, tends to be a very slow ramp. And that tends to be really more at least a 6 quarter ramp, sometimes more than that depending on when the award is made within the process.

Dean Foate - Plexus Corp - President, CEO

But we have within industrial Commercial too, we have a couple of programs that are ramping rather aggressively. So I guess it's hard to characterize completely and it really varies program by program. I tend to like to think of it as being a year but in certain cases it's a quarter to 2 and in other cases it's more like 6 to 8 quarters.

Sean Hannan - Needham & Company - Analyst

Sure, that's helpful. I guess where I was trying to take a little bit of a different track really in understanding much more so of in the next quarter or so, what is an actual magnitude of program ramps that you're expecting? For example, if you're looking to the March quarter and Coke perhaps is going to come back, should there be, in addition to Coke, would we expect that there are some other material ramps within that space because we have the visibility into those longer ramp type of programs or segments?

Dean Foate - Plexus Corp - President, CEO

Yes, well there certainly are-- there are some programs ramping in that period of time. I guess from a risk standpoint I don't think that there's a lot of incremental risk because we're dependent upon some enormous ramp in order to see growth. I mean there's a number of programs that are currently forecasted that are somewhat some ramping in Q1 somewhat offset by the Coke pause here. And then we see those things, those programs continuing into Q2 and Q3 and beyond. So I don't know how to other than, which I can't do, give you our forecast and show you how each one of these things plays out. I don't think that you should think about the year as being substantially risky based on total dependency on some great big new program.



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Sean Hannan - *Needham & Company - Analyst*

Okay. Thank you, Dean.

Dean Foate - *Plexus Corp - President, CEO*

Yes, I think just because this question is coming up, I think I'd just give-- I'll give you just a little bit more breakdown on the new wins by sector too and it might help you a little bit. So when we talk about our new combined Networking Communications sector, about 40% of the revenue that we-- in that \$182 million is in that sector. And the bulk of that revenue would be with existing customers, so those wins would be with existing customers. When you look at Medical, about 25% of that \$182 million is in the Medical and another third is in Industrial Commercial. So that's kind of a split between the sectors with the balance in Defense/Security/Aerospace.

Ginger Jones - *Plexus Corp - SVP, CFO*

So Operator, I think we're ready for the next question.

Operator

Shawn Harrison from Longbow Research.

Shawn Harrison - *Longbow Research - Analyst*

Good morning, everyone. A few brief questions, just on Coca-Cola to be clear, it sounds as if the ramp in your fourth quarter was greater than you thought it would be by maybe \$10 million to \$50 million, is that correct?

Ginger Jones - *Plexus Corp - SVP, CFO*

That's correct, Shawn.

Shawn Harrison - *Longbow Research - Analyst*

Okay. And then second just the other brief question would be the cost reductions, what were the anticipated savings from the \$500,000 cost reduction made during the September quarter and kind of actions you're taking now?

Ginger Jones - *Plexus Corp - SVP, CFO*

Yes, we built those savings into both our expectations for gross margin and for SG&A. So if you look at our SG&A guidance for the first quarter, the \$26 million to \$27 million, it's included in that. And we would expect that to be pretty consistent level through F 2012 with the exception that every year we do have a change in our cost structure when we do merit increases, so we generally expect our SG&A to go up in our fiscal second quarter. Although that is still variable and we'll be managing that based on both the economy and our financial performance, we do expect the merit increases at some point, some amount in Q2. So I guess I would build that into your model and we have built those cost savings into that lower level of SG&A.



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Shawn Harrison - Longbow Research - Analyst

Okay and then finally just maybe, Dean, I know last quarter you were a little bit concerned by the decline in Engineering revenues, it popped back up this quarter, maybe you could talk about just the Engineering environment and if it's more stable?

Dean Foate - Plexus Corp - President, CEO

Yes, I think it's improved quite a bit. We were quite concerned last quarter because it was a particularly soft quarter, which is not unusual when customers start to hit the brakes. They cut back in spending and they redecide -- they start to reallocate where they're going to spend their money. And so we saw that pause happen last quarter. We saw some of that get reconciled this quarter and so we recovered pretty nicely I think in Engineering. So we'll see how it plays out in Q1, but at this point we feel much better about the new program wins there.

Shawn Harrison - Longbow Research - Analyst

Does that business typically bottom ahead of I guess the assembly business?

Dean Foate - Plexus Corp - President, CEO

I don't know if it's ahead, it certainly does it consistent with. I mean it's sort of a moment of capitulation for customers when they think things are really lousy, then they stop all spending and let's reconsider. And I think that we certainly saw that during the quarter last quarter. And at least I would say it's encouraging, which now that they've turned some of those things back on, which gives you a sense that they maybe are starting to get their heads around what the future is going to look like at least in the near term.

Shawn Harrison - Longbow Research - Analyst

Got you, very helpful. Thanks a lot.

Operator

Craig Hettenbach from Goldman Sachs.

Craig Hettenbach - Goldman Sachs - Analyst

Yes, thank you. Just a follow up on the OpEx cuts, any other additional color you can provide in terms of percent of headcount or by region as you look to reduce costs?

Ginger Jones - Plexus Corp - SVP, CFO

Yes, Craig, this is Ginger again. It was 3% of headcount in the Americas and EMEA, so modest. It was primarily concentrated in our manufacturing location, which I think is reflective of the fact that we have been very restrained about adding heads at our corporate office over the last couple of years. So frankly, there just wasn't a lot of room there. So I'd say modest in response changes in our customer forecast and of course we will continue to monitor that based on revenue changes going forward.



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Craig Hettenbach - *Goldman Sachs - Analyst*

Okay, and then I can follow up, any update on the pricing environment just as visibility becomes an issue in here and it's volatile from an in demand perspective, are you seeing any changes to pricing for programs?

Todd Kelsey - *Plexus Corp - EVP- Global Customer Services*

Not substantial. I mean we still have the occasional crazy pricing that we see on a program-by-program basis, but it's not a substantial difference from what it's been.

Craig Hettenbach - *Goldman Sachs - Analyst*

Okay. Thank you.

Dean Foate - *Plexus Corp - President, CEO*

Thank you.

Operator

Steven Fox from Cross Research.

Steven Fox - *Cross Research - Analyst*

Hi, good morning, just 1 quick question. Dean in downturns in the past we've seen periods where new programs have been put on hold or discussions with customers have been put on hold due to uncertainty, doesn't sound like you're describing that type of situation today. And I was curious what's changed and if I'm understanding that correctly and what is the risk that we still see some push outs on new programs going forward?

Dean Foate - *Plexus Corp - President, CEO*

Yes I think that we just came through fiscal 2011 where we were kind of underneath our goals in terms of what we wanted to see for new program wins and so I think we saw some of that muted activity through last year. I think that we're starting to see now where customers are finally making decisions in light of what they think is going to be a tough economic environment and they're starting to choose who their partners are going to be. Again, it's not unlike what we saw in fiscal 2008 and 2009 cycle where there's only so much business to go around and we appear to be in a very good position to get more than our fair share in these economic cycles. And I think it just plays to the strength of the Plexus brand in the marketplace. So while it's difficult to go through the cycles, we tend to come out of the cycles quite favorable. It's just-- the question is when are we going to come out of this cycle.

Steven Fox - *Cross Research - Analyst*

So is the \$180 million that you saw this quarter is that partially a reflection of customers trying to adjust to what is going to be a slower economic environment and outsourcing more, or is it too early to say whether that's what they're thinking?



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Dean Foate - Plexus Corp - President, CEO

I think it's a question of concentrating their activities with the suppliers that they favor most.

Steven Fox - Cross Research - Analyst

Great, thank you very much.

Dean Foate - Plexus Corp - President, CEO

You're welcome.

Ginger Jones - Plexus Corp - SVP, CFO

Thank you, Steve.

Operator

Thank you. And with no further questions in queue, I'd like to turn the conference back to over to Management for any closing remarks.

Dean Foate - Plexus Corp - President, CEO

All right well I want to thank everyone for the good questions. I know it's atypical for us not to want to give you longer term kind of calibration on revenue numbers, but like I said I just think there's too much risk to us being substantially wrong here at guessing how F 2012 is going to unfold. I just want to reiterate that this is not a question of a lack of competitiveness in the marketplace. On the contrary, I think we're doing quite well in the marketplace, we're doing well on new business activity, [funnel] of opportunities on bringing those new business activity across the finish line. So I feel really good about our position in the market. I feel good about the fact that Engineering solutions has picked up from an activity standpoint.

It's just this is just a problem of end markets and just a tremendous amount of uncertainty and a lack of confidence in end markets with the customer base. And if they don't have confidence, it's very difficult for me to provide any sort of reason to sort of guidance that would be anything other than an educated guess in the coming year. And until things start to stabilize a little bit, that's going to be our position. And hopefully we'll start to see that stabilization soon so that I can provide you with a little bit more clarity on the go-forward basis. So thanks again for the questions and I hope you all have a tremendously good day. Bye.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This does conclude the program and you may all disconnect. Have a great rest of the day.



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