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EDITED TRANSCRIPT
PLXS - Q1 2012 PLEXUS EARNINGS CONFERENCE CALL

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OVERVIEW:

Co. reported 1Q12 revenue of $530m and EPS of $0.51. Expects 2Q12 revenue to be $550-580m and EPS, excluding any restructuring charges and including approx. $0.09 per share of stock-based compensation expense to be $0.51-0.58.

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Plexus Corp. conference call regarding its fiscal first quarter 2012 earnings announcement. At this time all participants 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?

Angelo Ninivaggi - *Plexus Corp. - SVP, General Counsel and Secretary*

Good morning and thank you for joining us today.

Before we begin, I would 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 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 filings for the fiscal year ended October 1, 2011 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?

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

Thank you, Angelo, and good morning, everyone. Last night we reported results for our fiscal first quarter of 2012. Revenues were $530 million, with EPS of $0.51. You might recall that we narrowed our earlier guidance range when we issued our January 4 press release announcing our expanded relationship with Kontron. Relative to our January 4 guidance range, revenues were at the high end. While EPS exceeded the range by $0.01. Todd will provide some additional comments on the Kontron relationship in a few minutes.

When considering the volatility we experienced during fiscal 2011, I would characterize the demand environment in our first fiscal quarter of 2012 as relatively stable. Our market sector revenue performance was generally consistent with our expectations when we established guidance for the quarter.

Turning now to some insight into the performance of our market sectors during our fiscal first quarter of 2012, and our current expectations for Q2 and Q3. Our Networking/Communications sector was up about 8% sequentially in fiscal Q1. Consistent with our expectations when we established guidance for the quarter, as 7 of our top 10 customers performed well and we benefited from the early ramp of a couple of new programs. Looking ahead to Q2 for our Networking/Communications sector, we currently anticipate that revenue will decline in the low single digit percentage rate as some customers adjust inventory in response to uncertain end market demand. We believe sequential revenue growth will return in the third quarter as customers get the inventory correction behind them. And we benefit from continued program ramps.

Our Medical sector revenues were up just 1% sequentially in fiscal Q1. A slight improvement over our earlier expectations for a low single digit decline as a few customers beat their earlier forecasts. A combination of end market challenges and related inventory adjustments will likely cause our fiscal Q2 Medical sector revenues to decline in the low single-digit percentage range. Our forecast currently indicates that sequential revenue growth will resume in Q3, in large part driven by new program ramps.

Our Industrial Commercial sector was down sequentially about 14% in Q1. The overall decrease was marginally better than earlier expectations as the majority of our top 20 customers in this sector improved upon their earlier forecasts. Looking to fiscal Q2, our expectation is for sequential growth to approach 30% for Industrial Commercial sector, as we begin to recognize revenue from our newly-expanded Kontron relationship, in combination with improved demand for the Coca-Cola program. Additionally, a newer customer program ramp is expected to materially benefit this sector during the quarter. We currently anticipate the sequential revenue growth to continue into our third quarter, although admittedly at a much slower pace when compared to Q2 improvement. Our Defense, Security and Aerospace sector was down sequentially about 9% in Q1, in line with earlier expectations. We currently expect Q2 to be up in the mid-teens percentage range as we continue to ramp new programs in the aerospace component of this sector.

Turning now to new business wins. During the fiscal first quarter we won 28 new programs in our Manufacturing Solutions group that we anticipate will generate approximately $203 million in annualized revenue when the programs are fully ramped in production. This result excludes the revenue associated with the expanded relationship with Kontron. The Kontron revenue will be included in our fiscal Q2 new wins total. Our exceptional new wins performance this quarter follows the strong result last quarter when we also exceeded the level that we believe is required to drive revenue growth in line with our long-term enduring growth goal in a more normal macroeconomic environment. While we did a good job harvesting opportunities these past two quarters, our funnel of manufacturing opportunities remains strong at $1.9 billion in qualified opportunities. About

40% of the new business opportunities are in our Medical sector, an opportunity that we hope to exploit to enhance our market position and drive longer-term growth despite the challenging macro.

Turning now to our guidance. Inclusive of our estimated revenue from the Kontron arrangement, we are establishing fiscal second quarter 2012 revenue guidance of $550 million to $580 million. With EPS of $0.51 to $0.58. Excluding any restructuring charges and including approximately $0.09 per share of stock-based compensation expense. This guidance range suggests that our revenues will grow sequentially in our second fiscal quarter. The EPS range implies that operating income will be below our targeted 5% operating margin as we absorb structural and seasonal operating costs such as salary adjustments and the transition cost of the new Kontron business.

Looking further ahead to full-year fiscal 2012, although most of our end markets appear to have stabilized, our Networking and Communications sector remains volatile. We continue to enjoy a healthy environment for new business opportunities. And we are keenly focused on taking advantage of these opportunities to drive growth, in spite of a macroeconomic environment that remains challenging. Based on our current customer forecast, our expectation is that sequential revenue growth will continue in each of our quarters throughout the fiscal year, setting the stage for improved operating performance which we anticipate will be more in line with the long-term financial model. We remain committed to both revenue growth and return on invested capital performance that is solidly above our weighted average cost of capital as we believe this is fundamental to delivering long-term shareholder value.

Now I'll turn it to Todd for some further comments on the Kontron arrangement. Todd.

Todd Kelsey - *plexus Corp. - EVP Global Customer Services*

Thank you, Dean. We are pleased to announce that the strategic agreement with Kontron AG, communicated on January 4, 2012, was completed and closed on January 18 for a purchase price of $35 million. Under this agreement Kontron will transition all manufacturing of its Kontron Design Manufacturing Services subsidiary, known as KDMS, located in Penang, Malaysia to Plexus. Plexus will acquire the inventory and equipment of KDMS, hire substantially all KDMS employees, and pay a modest premium. In exchange, Kontron will commit to approximately $100 million of incremental revenue annually for two years. There is no real estate involved in this agreement.

We are excited about this expanded business opportunity with Kontron and see it as consistent with our organic growth strategy. This agreement is similar to other Plexus business development opportunities in many respects. For any significant new business won by Plexus, we would expect to purchase inventory, hire employees at our facility and acquire new equipment, as the situation is here. Unique to this agreement, revenue will transition very quickly as Plexus will recognize all revenue from today forward, contributing an incremental $50 million to $75 million of revenue in fiscal 2012. There will be a committed level of revenue from Kontron for two years. And we will pay a modest premium of $3 million to compete the agreement.

Our transition plans for this new business are well underway. And we expect to transition all production from the KDMS facility to Plexus facilities over the next three to six months. We have targeted the majority of this business to one of our existing facilities in Penang. Kontron became a customer of Plexus in early fiscal 2011, and we have since developed a strong relationship at many levels of the organization. We see this agreement as positive for both companies and the beginning of a long-term strategic relationship. Kontron is a leader in embedded computing technology with a growth rate that exceeds their end markets. We have been engaged with several of the Kontron divisions worldwide and are in active discussions with others. This agreement positions us as a key supplier to essentially all Kontron divisions. It also allows each Company to focus on core competencies in order to more efficiently provide superior products and services to Kontron's end customers.

In the case of Kontron, this focus is partnering with their customers to provide highly-reliable, application-ready embedded solutions. For Plexus, this is to provide superior product realization solutions for mid to low volume higher-complexity programs. My thanks to the many people within Kontron and Plexus who worked very hard over the last several weeks to complete this agreement. Particularly, the Plexus and KDMS teams in Malaysia. We welcome the many new employees who will join Plexus from KDMS.

With that I'll turn the call over to Ginger.

Ginger Jones - *Plexus Corp. - SVP and CFO*

Thank you, Todd. As Dean mentioned earlier, our first quarter revenue was at the top end of our revised guidance range. Gross profit was 9.8% for the fiscal first quarter. This is higher than our expectations and above the fiscal fourth quarter of 2011. This was a result of stronger earnings from our Engineering Solutions group than originally anticipated, as they completed a significant project. And the favorable outcome of inventory disposition related to a previously-announced manufacturing customer disengagement. In total, these two factors contributed about $0.08 of EPS above our original guidance.

Selling and administrative costs were $27.9 million. Slightly above our expectations. Reducing EPS from our original guidance by approximately $0.03. This included higher-than-anticipated hiring and relocation costs as we continue to build the leadership teams in each region. As well as higher bad debt expense during the quarter. SG&A costs as a percentage of revenue were 5.3% in the fiscal first quarter, consistent with the fiscal fourth quarter of 2011. Operating profit was higher than our expectations at 4.5%, largely the result of the higher the gross margin I discussed. Return on invested capital was 14.2% for the fiscal first quarter. 170 basis points above our weighted average cost of capital for F'12 of 12.5%.

Our efforts to reduce working capital continue to show progress as cash cycle days remained flat at 70 days. This is a good result in a quarter that saw reduced revenue from the prior quarter and the continued ramp of new programs. Cash cycle days were below our expected range of 72 to 74 days.

I'll now get into the details by balance sheet line item. Days in receivables decreased by 2 days to 46 days. This decrease was based on the timing of payments from customers, and within our normal range for days in receivables. Days in inventory were 87 days, up 2 days from our results in the prior quarter. The dollar value of inventory was flat to the prior quarter. And accounts payable days were at 57 days, consistent with the prior fiscal quarter. Days of cash deposits were in line with the prior fiscal quarter at 6 days, at $30.2 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 $8 million. During the quarter we spent $22 million in capital expenditures with approximately $9 million of that for footprint expansion in our APAC region, including new sites in Penang, Malaysia and Xiamen, China.

I'll now turn to some comments on the fiscal second quarter of 2012. Gross margin is expected to be in the range of 9.1% to 9.3%. Which is lower than our targeted model of 10%, and our gross margin the fiscal first quarter. This includes structural seasonal operating costs such as salary adjustments, modest drag from new capacity in Penang, and the transition costs for the new Kontron business. We are continuing our focus to offset near-term gross margin pressure with aggressive cost containment, including SG&A, in an effort to protect operating profits. SG&A for the second fiscal quarter of 2012 is expected to be in the range of $27 million to $28 million, in line with our spending in the first quarter of fiscal 2012.

Depreciation expense is expected to be approximately $12.2 million to $12.4 million in the fiscal first quarter, down slightly from the $12.6 million in the fiscal first quarter. This results in expected operating margin of 4.2% to 4.4%, slightly below our results in the fiscal first quarter. We are estimating the effective tax rate for fiscal 2012 will be 8% to 10%. This is consistent with our communications at the beginning of the fiscal year. And an increase from 2012 based on 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 dollars in inventory to increase modestly, to support the higher forecasted revenue. And for accounts receivable and accounts payable to increase slightly. Based on the forecasted levels of revenue, we expect these changes will result in cash cycle days, net of cash deposits, of 71 to 73 days for the fiscal second quarter.

Our capital spending forecast for fiscal '12 is now approximately $95 million to $100 million. This is up from our previous estimate of $90 million to $95 million to reflect the approximately $5 million of equipment purchased with the Kontron agreement. Our global at tool capacity increased slightly to 83%. As discussed in our Earnings Release, and as Dean just mentioned, we remain optimistic about our continued organic growth. And we will continue with our plans to expand our footprint in close proximity to our existing locations.

We remain committed to our long-term 5-10-5 financial model which, as a reminder, includes ROIC of 500 basis points over our weighted average cost of capital. For fiscal 2012, this target is 17.5%. We believe this 500 basis point spread is enough to absorb any volatility in WAC, and provide a compelling investment for shareholders. Even in periods such as the current quarter when we deliver an economic spread of less than our target of 500 basis points, we still deliver significant economic value to shareholders. 10% gross margin target. And a 5% operating margin target. And

as I said earlier, we will try to protect that operating margin whenever possible by managing the volatility in our gross profit through spending discipline.

As Dean mentioned, our current customer forecast supports a trend of sequential revenue growth through the end of the fiscal year. Although gross margin may continue to be challenged in this environment, we believe we can deliver operating margin closer to our 5% target through continued leverage at our sites and disciplined management of our selling and administrative expense. 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). Amit Daryanani of RBC Capital Markets.

Amit Daryanani - *RBC Capital Markets - Analyst*

Two questions from me. One, just on the Kontron deal. Could you just talk about what the margin profile of the asset is today, what does it take you to get to that 5% margin? And is that really the delta on why margins are stepping down sequentially a little bit?

Ginger Jones - *Plexus Corp. - SVP and CFO*

Amit, I'll start with that one. We believe that after the transition period, this will be business that's in line with our operating model. We will have transition costs during the next several quarters, primarily because we'll be operating in their facility for a period of time. So to summarize, I think there will be some drag on gross margin for the next quarter or two but we expect once it's fully transitioned it will be back in line with Plexus margins.

Amit Daryanani - *RBC Capital Markets - Analyst*

Got it. And then could you just maybe talk about the Networking segment because it looks like if you just take, excluding Juniper, that segment was probably down mid single digits versus being reported up mid single. Did you guys just pick up incremental share at Juniper and that's what's driving the strength? And then beyond that, could you just maybe talk about what are you seeing in the Communications segment?

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

I'll try to answer this and then I'm sure Todd will probably want to chime in, as well. I think that we had a nice quarter. Part of it certainly was Juniper, which is obvious from the numbers there. And part of that was the consequence of us doing a nice job shifting our mix of business with Juniper to enterprise. As you might recall, historically it's been highly dependent on carrier. So that helped us. We've been announcing new program wins throughout last year and we're starting to get some benefit from those programs.

So, we did have a good quarter with Juniper. But we also had a number of other customers that were sequentially up in the quarter. And, in fact, a few of them performed better than our earlier expectations. So they had a slightly better outcome than they had forecasted earlier. So there's just a lot of uncertainty, I think, in that marketplace. And of course, now we're looking at Q2 where we're seeing a fairly dramatic pull-back. Some of that is because there was some effect of a seasonal strength in that first quarter. Which would have been the final calendar quarter of the year, of course. And then we're seeing what we think to be a recovery in Q3 where the majority of our top 10 customers in that segment start to forecast up demand. And as I indicated in the script, some of that is because we're starting to ramp newer programs with some of these customers. I don't know if you have any additional color that you want to add to that, Todd.

Todd Kelsey - *plexus Corp. - EVP Global Customer Services*

Maybe, Dean, I can provide a little color around some of the longer-term trends that we're seeing in Networking and Communications. Certainly, we're seeing struggles in the near-term demand within the sector. And this has really occurred over about the course of the last three quarters where things have softened pretty substantially. Previously this sector was really looking at sustained growth within the sector. Some of the factors that are leading into it, of course we have the disengagement of Starent and Avocent Which is well-known but is about $160 million drag from fiscal '09. Another thing that we're seeing is a little bit of softness from two of our top five customers that's playing into it, I'd call it market softness.

But more importantly would be a few of our customers that have, I would call, limited product lines. They're significantly down. Really on the order of 25% to 50% down, which is in light of the current economic situation, which is providing a real drag on the sector. Now, what the sector has done is they're in the process of adding several new customers, so we expect to see growth as we get through this Q2 time period. Now, you had mentioned Juniper earlier. Juniper was quite strong, perhaps a bit seasonally strong. But we will continue to see growth in Juniper overall in a year-over-year basis from F'11 to F'12 as we ramp these new businesses and new programs and transition some of the new enterprise wins that we've had with Juniper.

Amit Daryanani - *RBC Capital Markets - Analyst*

Thanks a lot, guys.

Operator

Brian White of Ticonderoga.

Brian White - *Ticonderoga Securities - Analyst*

Ginger, I'm wondering if you could just break out the $0.08? What percent was engineering, what percent was the inventory provision?

Ginger Jones - *Plexus Corp. - SVP and CFO*

Yes, I'd say of that $0.08, probably $0.04 was engineering, $0.03 was the inventory disposition, and then there was about $0.01 of other contributions to the quarter.

Brian White - *Ticonderoga Securities - Analyst*

Okay. And then will we see that again in the March quarter?

Ginger Jones - *Plexus Corp. - SVP and CFO*

We do not expect that at this time. Obviously the inventory disposition is behind us. That was fully resolved in the December quarter. And the Engineering Solutions issue is related to the successful closure of a large program with a large customer so we don't expect that in the second quarter.

Brian White - *Ticonderoga Securities - Analyst*

Okay. Thank you.

Operator

Shawn Harrison of Longbow Research.

Shawn Harrison - *Longbow Research - Analyst*

I wanted just some additional clarity on the industrial business. If you could talk about just the growth expectations you're seeing with Coke. And then, Dean, I think you made a comment about a new program ramping that should substantially benefit the quarter. Any color you could help us out with there would be helpful.

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

Sure. Todd's anxious to take this one, so go ahead, Todd.

Todd Kelsey - *plexus Corp. - EVP Global Customer Services*

Thanks, Dean and Shawn. So one of the things -- what's interesting about the Industrial/Commercial sector is there's a fair amount of similarity with it to the Networking/Communications sector. Now, we don't have the major customer dislocation issues in Industrial/Commercial that we're overcoming. But in the case of that sector, there's several customers that are down in a very substantial way. Particularly the semicap people, but there's also a couple of other customers that I'd call the more limited product line type customers.

But we've been able to overcome that in the Industrial/Commercial sector really through taking market share and the growth of some substantial new customers. The two that are public are obviously Kontron and Coca-Cola. There's a third major customer that we're ramping in a big way and was a portion of our wins this past quarter that are growing in a big way. And that's in a subsector within Industrial/Commercial that's showing very strong growth if you look at their end markets. So I think it's a positive story from this team and from our Industrial/Commercial market sector where they're taking substantial share within their end markets.

Shawn Harrison - *Longbow Research - Analyst*

Within Coca-Cola, just as a follow-up, has there been any change in terms of the full-year revenue expectation?

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

No, I think Coca-Cola is tracking very nicely towards what we've been communicating in terms of full-year revenues.

Shawn Harrison - *Longbow Research - Analyst*

The brief follow-up would just be, 5% EBIT margin, is that something, with Kontron ramping, even in the back half of the year that you think you would be able to achieve by the fourth fiscal quarter? Or is that more of a '13 event?

Ginger Jones - *Plexus Corp. - SVP and CFO*

We're optimistic that that can be a Q4 F'12 target. Maybe not all the way there, Shawn, but significantly closer to the 5% target.

Shawn Harrison - *Longbow Research - Analyst*

Thanks so much and congrats on the quarter.

Operator

Brian Alexander of Raymond James.

Brian Alexander - *Raymond James & Associates - Analyst*

Dean, you previously indicated on the last call that you would grow well below your long-term target of 15% this year. It sounds like you're more confident in sequential growth over the next few quarters. So given the strong new wins including Kontron, the wind-down of the customer inventory reductions, and more stable end demand, do you think the Company can grow double digits in fiscal '12? Or how should we think about the slope of the trajectory off margin when you can get back to that 15% growth rate?

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

Yes, that's a tough question. I think you'll note that I did not provide a full-year number. And I think part of it is because our visibility still in the back half is pretty limited, although the trends certainly are positive. As you know, we came down three quarters in a row sequentially and now we finally have turned the corner to an up quarter. And of course, we're starting to feel some momentum building as we move forward. But I think the gap on a year over comp basis is pretty big. I think if we could get to double-digit, I think that would be a significant victory for the year. I think it's a little bit early to make a commitment on that sort of growth. But certainly we're starting to build some momentum. And I think the new wins momentum on top of an improving macro, which we expect to start to happen in the back half of the year, would certainly set the stage for a much stronger fiscal '13, which we're starting to get quite optimistic about.

Brian Alexander - *Raymond James & Associates - Analyst*

Is it fair to say that the forecast volatility that you saw for much of last year has really dissipated and trended lower here in the last several weeks? And your confidence is coming as much from the macro as it is the new wins? Or is it really geared toward the new wins in terms of your confidence in sequential growth in June and September?

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

I think it's a couple of things. One is, as you said, we did see quite a bit of stability. In fact, we probably had more marginal revisions up in forecasts as we came through this quarter than we've seen in quite some time. Particularly Industrial/Commercial and some of the other sectors. Now, the big challenge for us is Networking/Communications, where we dug a pretty big hole for ourselves with the loss of a couple of customers last year. So we've got a pretty big headwind to overcome there. And I think that's the big challenge for us, is to get that back into a full-year growth number. But right now that sector and the customers in that sector are, as Todd pointed out, especially some of the smaller ones that have a very limited end market exposure, are the ones that are struggling quite significantly. And it really depends on our ability to gain share with some of our bigger customers that we have in that sector in order for us to really get some growth driving in that sector, and perhaps land a new account, as well. Those customers are talking about a better late half. We'll see if that transpires. If it does then we could see quite a bit of recovery here in that sector. Which, of course, would have a very significant impact on our overall revenues for the year because of the significant portion of our overall pie that that represents.

Brian Alexander - *Raymond James & Associates - Analyst*

Okay. And final one from me, sorry if I missed it if you said this earlier, but the $200 million of new wins for the quarter, did you break that out by end market?

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

Did not. But I can give you a little extra color on that real quickly. And I'd like to remind everybody now, again, that that $203 million excludes the Kontron business which, of course, will be in the Q2 numbers. So outside of that, about 38% of the revenues were into our Networking/Communications sector, about 26% in Medical, 32% Industrial/Commercial and then the balance, or about 10%, in DSA. I think what's also interesting is on a regional basis, about 75% of those wins were coming into the Americas, which is really important, of course, for us to leverage our footprint in the Americas in addition to the strong growth that we see in other places around the world.

Brian Alexander - *Raymond James & Associates - Analyst*

Thanks for all the color.

Operator

Craig Hettenbach of Goldman Sachs.

Craig Hettenbach - *Goldman Sachs - Analyst*

To follow up on Kontron, can you talk about the impact to the March quarter from a revenue perspective? And then anything in terms of this type of deal. Do you see this as a one-off opportunity with them? Or are there other opportunities with additional customers down the road that you could see this type of deal?

Ginger Jones - *Plexus Corp. - SVP and CFO*

I'll take the first part of that. The run rate on this customer is about $25 million a quarter. And so we're baking in about two-thirds of that into our March quarter, so in the range of $17 million to $18 million. And then I think Dean wants to take the strategic question there.

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

Yes, I want to talk a little about the nature of this relationship and this deal because I think, as folks know, we have been very committed to organic growth and have been pretty loathe to these sort of transactions historically. And I think it's important to recognize that we view this as quite a unique opportunity, that it avoids some of the significant strategic pitfalls that OEM asset divestitures entail. And I think one of the big issues here typically is that EMS companies have acquired physical assets in locations that have not been ideal from a value proposition standpoint. And also have acquired some social challenges, which is a whole bunch of people that are not used to being part of a service organization. And so some of the challenges with these OEM asset divestitures is taking on a physical address, a bunch of people, with a high concentration for a single customer, and then trying to diversify that customer base and trying to get people to operate and adjust their culture towards a service set mentality.

The economic challenge with many of these deals historically is that significant premiums were paid. In exchange for that premium, the EMS companies got a fairly long-term agreement in terms of revenues. And many of those were in take-or-pay relationships. So immediately you start to set yourself up in conflict with the customer as the customer ultimately, after a year or so, wants cost reductions. EMS companies are loathe to give those cost reductions because they've got to get a return on the high premium they paid. And by the end of those deals you've got an address with a culture that's challenged and you don't have diversified revenues. And then you're at odds with your big customer.

And so this relationship was unique to us in that it was in very close proximity to our facilities in Penang. And afforded us the opportunity to essentially transition all that business into our existing facilities and have those employees come into the Plexus culture. And so we got the cultural inertia of Plexus and new employees joining that culture. And we don't have this enormous premium that we have to recover. So this is fairly unique. I don't see us going out and pursuing these things as a general strategy. But I would finish with, there are a number of other very significant manufacturing exits that are in play which would not involve us necessarily taking employees. It would be more traditional where the OEM decides they're done with their factory, they're going to shut it down, and it's for us to come in there and help transition that business out into our facilities. And in that case, we would be acquiring inventory and all the things that we would normally do with one of these. But we wouldn't be in a situation of paying premiums necessarily, or taking on employees and all those kinds of challenges. That was quite a lengthy answer but it's important for me to make the case here that this does not represent a significant shift in our strategy.

Craig Hettenbach - *Goldman Sachs - Analyst*

Okay. Thanks for the detail there. If I can just follow up, with, the baseline of that business for most markets is stable. Can you just talk about your discussions with customers? Reflecting on that, where you see the greatest upside or downside to numbers as you go through the year?

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

I'm not quite sure how to answer it. I think that we're seeing pretty good stability. I think that customers, from our sense, the tone is more confident, at least a couple of quarters out. And I think that it's our sense that confidence is growing in stronger performance here, in the back half of the calendar year. And so we feel pretty good about customers that have been challenged, that they're at the bottom. We have other customers that are doing pretty well with new product launches and are taking share. And of course we've got a great opportunity here to gain new customers and new programs in the market. So we feel pretty good, I think. Our confidence is growing here that we're starting to build some real momentum. And that our markets will generally be stable with the exception of perhaps Networking/Communications which still remains pretty uncertain at the moment.

Craig Hettenbach - *Goldman Sachs - Analyst*

Okay. Thank you.

Operator

Wamsi Mohan of Bank of America-Merrill Lynch.

Wamsi Mohan - *BofA Merrill Lynch - Analyst*

Ginger, can you perhaps bridge the gross margin decline that you're alluding to for next quarter sequentially from the 9.8% to the 9.1%, 9.3% level between the three buckets? You mentioned salary adjustments, transition costs and new capacity. Perhaps size those for us.

Ginger Jones - *Plexus Corp. - SVP and CFO*

Yes, I'd be happy to, Wamsi. I think the first issue is, as you know, the fiscal first quarter benefited from the two items that I talked about. So the Engineering Solutions strong program that finished and the inventory disposition. That's probably the biggest items as we go from Q1 to Q2. And then I'd say the next biggest would be the salary adjustments which we talk about as a structural adjustment in our fiscal second quarter. I'd say the drag is modest from the new capacity coming online in Penang. And I'd say those are the largest pieces of the bridge.

Wamsi Mohan - *BofA Merrill Lynch - Analyst*

Okay. So should we think that, as you work through the transition costs over the next couple of quarters, it sounded from your comments as though you're expecting the operating margins to recover faster to 5%, and the gross margin to recover to 10%. I'm just trying to understand how many more quarters you would see gross margin being more adversely impacted relative to op margin.

Ginger Jones - *Plexus Corp. - SVP and CFO*

Our view today based on our current forecast is that this 9.1% to 9.3 is probably the trough from a gross margin standpoint. And that we'd see improvement sequentially beyond that. I think, as I said in my comments, we're probably more challenged on the gross margin line, so I'm not sure that it gets back to 10%. Or how quickly it gets back to 10%, I should say more correctly. But we think we can mitigate some of that with better leverage on SG&A. And so getting to our target of being closer to our 5% operating margin by the end of the fiscal year.

Wamsi Mohan - *BofA Merrill Lynch - Analyst*

Okay. Thanks. And as a follow-up, given the recent announcements of the option of the Coke Freestyle at Company-owned stores at Burger King, I know you're not revising your $200 million revenue target for this year yet but what level of capacity do you have to support incremental revenue? Can you size what's the maximum amount of revenue with your current capacity you could ship?

Mike Buseman - *Plexus Corp. - EVP Global Manufacturing Operations*

Wamsi, it's Mike Buseman. I'd say right now that we're well positioned for all the visibility that Coke's provided us with the installed capacity. And again, they've given us a pretty solid view of what they anticipate the next several quarters to look like.

Ginger Jones - *Plexus Corp. - SVP and CFO*

And just as a follow-up, we think we have a significant amount of physical capacity to do more Coca-Cola business should it come our way. And that there are other components of that supply chain that Coca-Cola would have to work out if they wanted to produce a lot more. So we don't expect we would be the gating item if they wanted to produce significantly more. But we feel like the $200 million view we have for F'12 is still appropriate.

Wamsi Mohan - *BofA Merrill Lynch - Analyst*

Okay. Thanks a t lot.

Operator

Sherri Scribner of Deutsche Bank.

Sherri Scribner - *Deutsche Bank - Analyst*

Ginger, I think on the last call you talked about the Coke business being down sequentially a bit in the December quarter after they had a pretty busy quarter filling up their channel. It sounded in the comments like you thought the Coke business was a bit better. Was the Coke business still down or was it relatively flat sequentially?

Ginger Jones - *Plexus Corp. - SVP and CFO*

Yes, I'll just start and someone else might want to chime in. The Coke business was down sequentially from the September quarter to the December quarter, basically in line with our expectations, maybe a slightly bit better. And then our view is quarterly it will be up again in the March quarter, as we expected. So no surprises there.

Sherri Scribner - *Deutsche Bank - Analyst*

Okay. So basically in line with what you thought. And then thinking about this new customer in the Industrial segment that's ramping, two questions. One, is this program significant enough that this customer could eventually represent 10%? Is it that type of a customer? And then secondly, who are you competing with on the EMS side for these types of wins? Who do you see that's also bidding on this business? Thanks.

Todd Kelsey - *plexus Corp. - EVP Global Customer Services*

So first of all -- Sherri, this is Todd, I'll take the question here, at least start with it With respect to this customer being a 10% customer, I think that would be a little too optimistic. Now, we see it as being a top 10 customer as it ramps over time. But it's clearly nowhere near that range right now. Just to give a little bit more color around the customer, it's in what we call our energy subsector of Industrial/Commercial. And with respect to competitors, it really varies across the map, I would say. And in this case, their outsourcing strategy was based more around capability. And we were just a good cultural and capabilities fit. And I don't know that competition came in, in a real big way on this. We were able to meet some pretty aggressive cost targets to meet their needs, and the cultural and capabilities fit was there and it just made sense.

Sherri Scribner - *Deutsche Bank - Analyst*

Great. Thank you.

Operator

Jim Suva of Citigroup.

Jim Suva - *Citigroup - Analyst*

Thank you and congratulations to you and your team there at Plexus for good results and a nice outlook. My question on the new business wins, which very impressively is rebounding and showing positive growth, much better than expected. Was there anything that would cause people to think that these new wins could slow down? Like, was there anything this quarter that was better than expected or one-off? Or I know you mentioned in your prepared comments that for the March quarter you'll put in the Kontron. If we exclude the Kontron for the March quarter, do you think the new business wins will continue at this rate or is there something in there that would cause us to say maybe it's not reoccurring?

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

I'll just comment. I think that, Jim, I think we have recognized that we're operating in a challenging environment. And we just felt that sometimes you've just got to bear down and try to get some things done in spite of what's a tough economic environment. And I think that the environment that we're in today, although not quite as painful as in the midst and depth of the so-called Great Recession, is putting pressure on OEMs to think differently about their outsourcing strategy. And I think then, back in the midst of the recession, we benefited quite dramatically from the customer base realigning their supply chain partners. And also from some OEMs that decided to exit their own manufacturing. And I think that this stagnant period that we're in now here, with very slow or challenged growth, and negative growth in some sectors, is causing a similar situation where we're seeing a lot of new business opportunities. And the strength of Plexus' brand continues to grow in the marketplace for execution.

So we're, in many cases, the chosen partner and we're aggressively going after these opportunities. We've added some additional talent to our go-to-market teams. We've improved our processes. Our targeting is much better. And we're doing much better, and improving our win rate, as well. And so executing better on the whole business relationship part of it. We're too early to say how the next quarter's going to come out but certainly the funnel of opportunity supports our ability to close down on business that's well above what we need to sustain longer-term growth at our target.

Jim Suva - *Citigroup - Analyst*

That's great. As a quick follow-up, your largest customer increased very materially quarter-over-quarter. Can you help investors feel comfortable or connect the dots around how I believe they just recently had some negative news come out or lowered expectations, yet it looks like they were a large part of the upside for this quarter? Help us understand, is that revenue recognition? Did you win from some competitors? Or how can we connect those dots? Or is it going to actually come back and be a headwind to Plexus in the future quarter? Or help us just connect the big upside and the big improvement on top customer, yet they just recently had some less than stellar news.

Todd Kelsey - *plexus Corp. - EVP Global Customer Services*

Sure, Jim. This is Todd. I'll take this one. With respect to Juniper, I think if you looked at the long-term trend line, it's certainly heading up, our Juniper revenue. And we talked about some of the new program wins and the share gain that we believe we've had with them. Now, this past quarter, Q1, was probably a little stronger than typical due to some seasonality and some other orders that we received from Juniper during that time period. So we wouldn't necessarily expect it quite at that magnitude. But if you looked at the long-term trend it's headed in the right direction.

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

Just to be clear, we're expecting pretty decent double-digit, approaching mid-teens growth here in the year with Juniper, even adjusting for what their outlook was.

Jim Suva - *Citigroup - Analyst*

Thank you and congratulations to you and your team there at Plexus.

Operator

(Operator Instructions). Sean Hannan of Needham & Company.

Sean Hannan - *Needham & Company - Analyst*

Actually, many of my questions have been answered. But if I can ask something, Ginger, around the OpEx. How well can you maintain leverage at existing SG&A spend, at least as you're looking to that March quarter? And perhaps hold under $30 million as you ramp through the year? Or is that going to be a little bit difficult?

Ginger Jones - *Plexus Corp. - SVP and CFO*

I'm pretty confident we can manage that pretty close to our current rate. Modestly up sequentially but certainly below the $30 million in the foreseeable future, I'd say three to four quarters. And I think we've demonstrated good ability to manage our OpEx. Over time, we'll expect it to trend up but I'm certainly confident about maintaining it below that level for the next three to four quarters.

Sean Hannan - *Needham & Company - Analyst*

Okay. Terrific. Thank you.

Operator

Steven Fox of Cross Research.

Steven Cross - *Fox Research - Analyst*

Two questions. First of all, just to follow-up on Juniper. Given the enterprise wins, can you give us a better sense of your mix with Juniper by their product areas, roughly? And then, secondly, Dean, with the new wins this quarter, last quarter, can you talk a little bit about the aging of those in terms of when they would ramp and whether you've seen push-outs or pull-ins on the wins you've gotten recently? Thank you.

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

I'm going to let Todd take Juniper which we always need to be very cautious on.

Todd Kelsey - *plexus Corp. - EVP Global Customer Services*

Yes, it's hard to give you a real precise answer here, Steve, for respect out of Juniper. But we certainly have an enterprise position right now. I would say it's not a dominant position in our overall revenue with Juniper at this point. But there's room for some growth.

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

And I think relative to the wins, I think, obviously, as you think about the Kontron, when that revenue comes, it starts today because we closed the arrangement. But in terms of the $203 million. There's a lot of variability in new business ramps. And I think in the current environment the ramps tend to be a little bit more sluggish than they would in a stronger end market environment, certainly. Which is why we feel we need to really drive that number quite a bit above what our normalized win rate would be in order to drive top-line growth in the current environment. But I'd just say that these things can be anywhere from a couple of quarters to a full year, or four quarters, before they ramp up to what we expect to be a normalized run rate.

Steven Cross - *Fox Research - Analyst*

But there's no meaningful change in that time line, at this point, from what you're seeing?

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

I'd say the slope -- it's hard to say with any precision but I would say the slope of the line is maybe stretched a quarter, as you think about what would be normal, just because the end markets tend to be sluggish.

Steven Cross - *Fox Research - Analyst*

That's helpful. Thank you.

Operator

Alex Blanton of Clear Harbor Assets.

Alex Blanton - *Clear Harbor Asset Management - Analyst*

I've got a question on Kontron and it relates to a release that they put out when you announced this business. They said that the estimate of their revenue that they made when they reported earnings -- this was when they reported earnings themselves on January 16. It said that their estimate of earnings no longer includes approximately EUR15 million of revenue from the Malaysian production subsidiary, KDMS, because you and they intend to transfer that to Plexus. Now, my question is what is that EUR15 million? It sounds as if it's business that's going outside of Kontron from KDMS because they're no longer reporting it as part of their revenue.

Todd Kelsey - *plexus Corp. - EVP Global Customer Services*

Yes, Alex, I think if you really want to get crisp and clarity you should talk to Kontron. But it's important to understand that part of the KDMS revenues related to an EMS relationship that they had with other customers. They were acting as a contract manufacturer for other customers.

Alex Blanton - *Clear Harbor Asset Management - Analyst*

That's what I concluded. So part of your revenue will be going to other customers, not to Kontron out of that plant.

Todd Kelsey - *plexus Corp. - EVP Global Customer Services*

It's a small piece of it, Alex.

Alex Blanton - *Clear Harbor Asset Management - Analyst*

Okay. Thanks for clearing that up. And the second question is on the Industrial/Commercial segment. It was up 14% year-over-year. And you mentioned, I think, in your opening remarks that you were taking market share but that growth rate is below some of your significant competitors' growth rates. And you said some customers in that segment were down year-over-year. Could you elaborate on that? The growth rate was affected by the declines in certain customers. Other, some of your competitors did much better than that. Why did these customers go down and others in this industrial segment overall didn't?

Todd Kelsey - *plexus Corp. - EVP Global Customer Services*

I think just to clarify a little bit on the Industrial/Commercial. Our Q1 results were down 14% quarter-over-quarter. But as Dean mentioned in the opening comments --

Alex Blanton - *Clear Harbor Asset Management - Analyst*

Year-over-year.

Todd Kelsey - *plexus Corp. - EVP Global Customer Services*

No, quarter-on-quarter, were down 14%.

Alex Blanton - *Clear Harbor Asset Management - Analyst*

They were up 14% year-over-year. And I'm saying that's less than some of your competitors were doing.

Todd Kelsey - *plexus Corp. - EVP Global Customer Services*

That may be true. But our year-over-year is going to be substantially higher than that.

Alex Blanton - *Clear Harbor Asset Management - Analyst*

With the Kontron?

Todd Kelsey - *plexus Corp. - EVP Global Customer Services*

With everything.

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

Yes. And I can't comment for what our competitors put in their industrial/commercial sector either. There's not a lot of precision here with how different competitors categorize these revenues.

Alex Blanton - *Clear Harbor Asset Management - Analyst*

Yes, okay. I just thought you could provide some reason why certain of your industrial customers are doing less business than they were last year.

Todd Kelsey - *plexus Corp. - EVP Global Customer Services*

The semicap are definitely down, as I mentioned in the earlier comments.

Alex Blanton - *Clear Harbor Asset Management - Analyst*

Okay. Anything else?

Todd Kelsey - *plexus Corp. - EVP Global Customer Services*

That's primarily. The rest are just bouncing around.

Alex Blanton - *Clear Harbor Asset Management - Analyst*

It's mainly semicon?

Todd Kelsey - *plexus Corp. - EVP Global Customer Services*

Yes.

Alex Blanton - *Clear Harbor Asset Management - Analyst*

Okay. Thank you.

Operator

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

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

Okay. I want to thank everyone for joining us today. And I always appreciate the good questions. Also, I think our tone is, I think, if you haven't picked up on it, we're, I think, gaining confidence here that we're starting to see some improvement in the overall macro, as we look a little bit further out in time. And, of course, we just see the opportunity here to be assertive and go and grow the business, in spite of perhaps a somewhat sluggish macro, is quite significant here based on the new wins. And of course the opportunities that continue to flow into our funnel. So hopefully you're detecting that we're gaining an optimism here. Although I would caution that I would not start ratcheting up the revenue line too quickly here. And give us another quarter or so here to see how this is going to play out as we get closer to the back half of the year. So thanks again for joining us this morning.

Operator

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