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PLXS - Q1 2013 Plexus Earnings Conference Call

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OVERVIEW:

PLXS reported 1Q13 revenue of \$531m and EPS of \$0.47. Expects 2Q13 revenues to be \$550-580m and EPS, excluding any unanticipated restructuring charges and including approx. \$0.08 per share of stock-based compensation expense to be \$0.50-0.55.



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PRESENTATION

Operator

Welcome to the Plexus Q1 F13 earnings release conference call. My name is John and I will be your operator for today's call. At this time all participants are in listen-only mode. Later we will conduct a question-and-answer session. Please note that this conference is being recorded.

I will now turn the call over to Mr. Angelo Ninivaggi. Mr. Ninivaggi, you may begin.

Angelo Ninivaggi - *Plexus Corp. - SVP, General Counsel, Corporate Compliance Officer, 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 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 filing for the fiscal year ended September 29, 2012, 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 such as return on invested capital are used for internal management assessments because such measures provide additional insight into ongoing financial performance and the metrics that are driving management's decisions. Other measures such as net income before special charges help assess trends in performance over time by eliminating effects of unusual events. 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; and Todd Kelsey, Executive Vice President of Global Customer Services. Let me now turn the call over to Dean. Dean?



Dean Foate - Plexus Corp. - President, CEO

Thank you, Angelo, and good morning, everyone. I am just going to make a comment that I have managed to come down with a pretty nasty cold, so if my voice is a little gravelly this morning, I hope you will all hang in there with me.

Last night we reported results for our fiscal first quarter of 2013. Revenues were down 11% sequentially to \$531 million with EPS of \$0.47. Both our revenue and EPS results were consistent with our updated guidance issued on January 7.

Relative to our original guidance issued on October 24, our revenue result was 6% below the midpoint, while our EPS result was \$0.06 below midpoint. Our revenue performance reflects weakness that unfolded in manufacturing demand across all of our market sectors during the quarter. Our Networking/Communications sector offered the greatest difficulty in the quarter as the product demand-pull that we typically experience in the final weeks of the quarter did not materialize, particularly from our direct order fulfillment customers.

Our operating margin performance was in line with our expectations we set guidance for the quarter, although our path to that result requires some further clarification. The revenue miss contributed to a significant increase in our quarter-end inventory position, resulting in return on invested capital performance of 12.6%, well below our expectations. Ginger will provide some additional details on our operating performance and working capital metrics.

Now I'll make a short comment on the Juniper situation. We have completed a disengagement agreement with Juniper Networks that we believe protects our interests while supporting Juniper's plan for a two-quarter exit that will materially end the production of Juniper products at Plexus by June 30, 2013. Todd will outline a few more details about the agreement following my comments.

Turning now to some insight into the performance of our market sectors during our fiscal first quarter of 2013 and our current expectations for fiscal Q2. Our Network/Communications sector was down about 13% sequentially in fiscal Q1. The result was weaker than our expectations for flat to down performance when we set guidance for the quarter. The weakness was broad-based across our customer portfolio in the sector and the demand-pull that we normally experience, and the final weeks of the quarter ended well short of expectations. Our current view for fiscal second quarter is for revenue to grow sequentially in the high teens percentage range. While the Juniper disengagement agreement is driving a significant portion of the growth this quarter, the forecast bias among the majority of our larger customers in the sector has improved when compared to Q1.

Our Healthcare/Life Sciences sector performed closest to our original expectations for the quarter, with the revenue result down 4% sequentially. Manufacturing demand was only slightly weaker than expectations, and the overall result was supported by stronger than expected performance in our engineering solutions group. Looking ahead to Q2 of fiscal 2013, we currently anticipate revenues for Healthcare/Life Sciences sector to be flat to down with mixed performance across our customer base.

Our Industrial/Commercial sector was down sequentially about 18% in our fiscal Q1. The performance was weaker than expected as a couple of customers underperformed already weak forecasts. We currently anticipate that our Industrial/Commercial sector will be modestly up in our fiscal Q2, although the forecast performance among our customer base is mixed, suggesting challenging end-market conditions.

Our Defense, Security, and Aerospace sector was down about 3% in Q1. We expected modest growth when we set guidance. We currently expect Q2 to be up in the mid to high teens percentage range, driven in part by better demand among our Aerospace customers.

Turning now to new business wins. During the quarter, we won 23 new manufacturing solutions -- new programs in our manufacturing solutions group that we anticipate will generate approximately \$193 million in annualized revenue when fully ramped in production. The new program wins performance this quarter was particular strong for our Americas region, representing 78% of the revenue.

On a sector basis, 68% of our revenue is in our Network/Communications sector, while 17% is in our Healthcare/Life Sciences sector. This is referring to the new wins.



With the new wins performance in Q1, we have achieved six consecutive quarters of new wins performance above our target of approximately \$180 million per quarter. Our funnel of qualified business opportunities remains healthy, improving slightly to \$2.2 billion.

Turning now to our guidance, we are establishing fiscal second-quarter revenue guidance of \$550 million to \$580 million. At that level of revenue we anticipate EPS in a range of \$0.50 to \$0.55, excluding any unanticipated restructuring charges and including approximately \$0.08 per share of stock-based compensation expense.

The midpoint of this guidance range suggests that our fiscal second-quarter revenue will be up 6% when compared to the first quarter, reflecting higher forecasted revenue from Juniper as we support their plan to substantially complete the disengagement by June 30, 2013. Todd?

Todd Kelsey - Plexus Corp. - EVP, Global Customer Services

Thank you, Dean. We have been working constructively with Juniper over the past two months to support their plan to substantially complete their disengagement by June 30, 2013. We signed a disengagement agreement with Juniper on December 29 that protects our interests and provides continuity of supply for the products we manufacture.

The highlights of the agreement that are intended to mitigate balance sheet risk are as follows. Juniper will provide sizable quarterly cash deposits to Plexus against the inventory obligations. At the end of the transition, Juniper or its suppliers will buy all inventory including finished product that has not shipped to Juniper's end customers.

With this agreement in place we believe that all inventory on hand and future inventory obligations will be covered by Juniper and its suppliers. We are expecting no material inventory writedowns. Once the transition is complete, we expect approximately \$45 million of free cash flow from the disposition of Juniper inventory, which had higher levels of inventory than is the norm for our customers.

As we manage through the disengagement plan, we will continue to ramp recent new program wins and are working hard to win additional business to utilize the capacity coming available in the Americas and APAC regions where we produce Juniper product. We expect to redeploy substantially all standard equipment to other customers, with the possibility of up to \$250,000 in impairment of equipment specific to Juniper.

We believe that we will be able to redeploy most of our employees supporting Juniper, particularly in the APAC region. For those we are not able to redeploy, we are estimating severance and retention costs of up to \$1 million as we adjust staffing levels to the lower level of revenue.

I believe we are making progress against the near-term challenges and, we see a path to deliver improvement in both gross margin and working capital performance in both regions once we are through the transitional period. I will now turn the call over to Ginger.

Ginger Jones - Plexus Corp. - SVP, CFO

Thank you, Todd. First-quarter revenue was \$531 million, in line with the guidance we announced on January 7. Gross margin was 9.6% for the fiscal first quarter. This was above our expectations and slightly above our fiscal fourth quarter of 2012 results of 9.5%.

During the quarter, we sold certain inventory that had previously been written down. This contributed approximately 30 basis points of gross margin above our expectations. This was the result of our customary review of inventory policies and was not related to the upcoming disengagement with Juniper.

Our gross margin was also positively impacted by customer mix issues.

Selling and administrative costs were \$29.7 million, in line with our expectations for the quarter. SG&A costs as a percentage of revenue were 5.6% in the fiscal first quarter, higher than the fiscal fourth quarter based on the lower level of revenues during the quarter.



Operating margin was in line with our expectations at 4.1%. We are estimating a tax rate for fiscal 2013 of 6% to 8%, in line with our fiscal 2012 tax rate of 7%.

Return on invested capital was 12.6% for the fiscal first quarter of 2013, above our weighted average cost of capital for fiscal '13 of 12%. ROIC was lower than the 15.5% we delivered in fiscal 2012 and was negatively impacted by the lower operating earnings during the quarter.

As previously announced, in October 2012 the Plexus Board of Directors approved a stock repurchase program under which the Company is authorized to repurchase up to \$50 million of its common stock, which will be funded with existing cash. We began purchasing shares under this authorization in late October 2012, and during the first fiscal quarter we purchased 262,000 shares for approximately \$6.1 million at a weighted average price of \$23.13.

We expect execute this program on a relatively consistent basis over fiscal 2013. We believe this creates a disciplined process to evaluate our cash requirements, cash balances, and then return excess cash to shareholders.

Our cash cycle at the end of fiscal first quarter was 74 days, higher than our expectations and 11 days higher than our results in the fiscal fourth quarter. In total, working capital increased by approximately \$12 million during the quarter.

Days in receivables increased 1 day to 50 days. This increase was largely a result of a mix change to customers with less favorable receivable terms. Days in inventory were 92 days, up 14 days from our results in the prior fiscal quarter.

The dollar value of inventory was up about \$23 million from the prior quarter, which increased our days of inventory by 4 days. Most of this increase was driven by additional inventory on hand that we had expected to ship during the quarter, but which did not ship, based on lower customer demand. In addition, we are ramping new customers in several sites and have increased inventory to support these ramps.

Accounts payable days were 61 days, up 3 days from the prior fiscal quarter. Days of cash deposits increased from the prior fiscal quarter by 1 day to 7 days. The dollar value of cash deposits remained flat at \$36 million. These are deposits received from customers to offset the risk of inventory that we hold on their behalf.

Free cash flow during the quarter was negative as we utilized \$17 million in cash for increased working capital and capital expenditures. During the quarter, we spent \$26 million in capital expenditures, with approximately \$16 million of that for footprint expansion in Oradea, Romania, and Neenah, Wisconsin.

I will now turn to some comments on the fiscal second quarter of 2013. Gross margin is expected to be in the range of 9.1% to 9.3%, down from our gross margin in the fiscal first quarter of 2013. This reduced gross margin is largely the result of not expecting to see the impact from sales of inventory that had been previously written down that we saw in the first quarter. Without this positive impact to gross margin in the fiscal first quarter, our gross margins in that quarter would be similar to the guidance for the current quarter.

We expect SG&A costs to be consistent with our spending in the fiscal first quarter, in the range of \$29.5 million to \$30.5 million. At the midpoint of our guidance range, this will result in approximately 5.3% SG&A as a percentage of revenue. This is a decrease from the 5.6% in the fiscal first quarter, as we have relatively flat SG&A on expected increasing revenue for the quarter.

Depreciation and amortization expense is expected to be approximately \$12.6 million in the fiscal second quarter, up slightly from the \$12.5 million in the fiscal first quarter. This results in expected operating margin of 4.0% to 4.1%.

We are estimating the effective tax rate for fiscal 2013 will be 6% to 8%, consistent with the 7% for fiscal 2012.

Our expectations for the balance sheet are for working capital dollars, inventory, accounts receivable, accounts payable, and cash deposits to be down from the fiscal first quarter. Based on the forecasted levels of revenue, we expect these changes will result in cash cycle days of 68 to 70 days for the fiscal second quarter of 2013, down from the fiscal first quarter.

Our capital spending forecast for fiscal 2013 remains at \$100 million, an increase from the prior fiscal year. This estimate includes the completion of our announced investments for future growth, specifically our new footprint in Romania and the Neenah, Wisconsin, consolidation footprint in the United States.

Over the past several quarters, we have improved productivity and utilization of our existing facilities and equipment to serve new customers. This results in 75% global as-tooled capacity in the fiscal first quarter.

With the combination of challenging end-market demand and the disengagement of our largest customer over the next several quarters, achieving our financial targets will be difficult, particularly when a significant portion of our revenue growth is coming from new program wins. As we have discussed, the new programs are in line with our target margins when fully ramped, but can be financially challenging during the early quarters of (inaudible).

And as we stated in the press release, we are working to keep revenue for fiscal 2013 flat to 2012 and deliver acceptable financial results. To achieve that end, we have taken a number of actions over the past few months, some of which were discussed in our October 2012 press release, including reductions in force completed by the end of calendar 2012 of approximately 450 people or about 5% of our workforce. This resulted in \$2.2 million of severance recorded in the fiscal fourth quarter.

Headcount reductions were a mix of direct labor in recognition of the lower forecasted revenue, and salaried employees in the site, regional, and corporate functions. We will balance the need to manage headcount prudently while still investing the necessary staff to support the ramp of new customers.

We have delayed our annual salary increases by one quarter to April 2013, and we have reduced or eliminated other components of compensation such as variable incentive compensation for some employees. We have planned improvements to gross margin related to further efficiencies in our operations and expected improvements in materials profitability.

And we will complete the new footprint that is underway, as the site in Romania is critical to our long-term growth in the EMEA region and the facility in Neenah, Wisconsin, will allow us to consolidate multiple sites into one location and reduce our operating costs beginning in fiscal 2014. We believe that both are good long-term investments for future growth.

We expect that these actions will result in operating profit of 4.5% or better beginning in the fiscal third quarter. We think this is a reasonable level of operating profit in the current environment, and this remains industry-leading operating margin.

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) Shawn Harrison, Longbow Research.

Shawn Harrison - Longbow Research - Analyst

Morning, everyone. Just to that last point there, Ginger, the 4.5% operating margin in the fiscal third quarter, could you maybe, I guess, discuss a little bit more the factors behind that? I think that is a little better than what you talked about at the conference in December.

Is that a pull-forward of restructuring plus the Juniper business getting out earlier? Are there any additional savings that is pushing that a little bit higher?



Then also, with Juniper what is the anticipated fiscal '13 revenue contribution from them?

Ginger Jones - Plexus Corp. - SVP, CFO

Hi, Shawn. I'll take the first part of that question, then let Todd talk about the Juniper revenue. We have been very focused on improving margins, and I talked about some of the actions we have taken from headcount reductions to operational efficiencies; and we are seeing the benefits of that in the second half of the year.

I would say we have also moderated our thoughts about some of the other costs related to the Juniper disengagement. So we believe the equipment write-offs will be more modest and we may have less severance than we initially thought. So all of that, our internal work on improving productivity, and better visibility to the Juniper disengagement, leads us to the view of improved margins.

Todd, maybe you want to comment on Juniper?

Todd Kelsey - Plexus Corp. - EVP, Global Customer Services

Sure. Shawn, with regards to fiscal '13, Ginger had communicated previously on the order of \$230 million. We view it as about \$230 million to \$260 million right now within fiscal '13.

One of the things, just to clarify as well, too, we didn't disclose Juniper as a 10% customer this quarter. What we had decided to do was not disclose customers on a quarterly basis, as we are not required to do so. But they were, in fact, a 12% customer, just so everyone is aware of that situation.

Shawn Harrison - Longbow Research - Analyst

Okay, that's helpful. Then as a follow-up, in the press release I think it was -- the statement was efforting to see moderate growth in fiscal '14. Is that commentary more just surrounding the earlier timing of Juniper's disengagement? Is it more just cautiousness on the current business that you have?

I would have expected maybe a little bit more bullishness given the funnel increasing, the potential for some large deals out there, and a good quarterly win total.

Dean Foate - Plexus Corp. - President, CEO

Yes, I think we are just trying to be cautious given that what just happened this past quarter was -- there was quite a bit of weakness across all the customer set. So if that weakness would continue, then the growth rate that we would see over the longer run in the rest of the business, sans the Juniper piece, would be moderate.

So, we are trying to be cautious. I think a way to think about this is that when you think about F12 to F13 for growth, we are managing through somewhere in the neighborhood of a \$100 million headwind with Juniper, the revenue from '12 to '13 as it came down.

As Todd said, we are going to have to manage through a \$230 million to \$260 million headwind looking into fiscal '14. So, we have got a pretty good chunk of revenue to overcome there.

But on the back of that we have done a really good job accelerating -- or doing a nice job winning new business over and above our target level. So we have got plenty, I think, of new work coming in that -- in theory if it all holds up and end markets don't crater on us, that we should be able to power through that disengagement and the headwind.

Shawn Harrison - Longbow Research - Analyst

Thanks so much; and feel better, Dean.

Dean Foate - Plexus Corp. - President, CEO

Thank you. I hope I feel better, too.

Operator

Steven Fox, Cross Research.

Steven Fox - Cross Research - Analyst

Thanks. Good morning. Just a couple follow-ups off of the last comments. First of all, just trying to understand footing the gross -- the operating margin from 4% to 4.5%. How much of that would be related to improving just as-tooled capacity versus maybe other cost cuts that have been in place?

Then secondly, Dean, moderate growth for fiscal 2014 with a \$230 million headwind sounds pretty good actually. It would be -- would imply about 10% growth from your remaining business.

So given that type of number, how do you characterize where it is coming from and what we should be looking for as the best served markets or best product opportunities for Plexus going forward?

Dean Foate - Plexus Corp. - President, CEO

Well, do we want to have Ginger start with the first part of that, which is our margins?

Ginger Jones - Plexus Corp. - SVP, CFO

Yes, I can. Steve, I think it's a combination. Obviously, we've done a lot of things here to improve productivity managing headcount, managing costs; and I think that is probably the larger driver.

We are also seeing the benefit of other new programs that are ramping and getting closer to their target margin, getting past the first transitional period where we have less profitability. So I would say it is a combination of all of that.

You know, the 4.5% is really where we were for most of F12, so we see that as a return to realistic margins in the current end-markets, where we have low end-market growth but a lot of new program rampings, and that is really how we are looking at the second half of F13.

Dean Foate - Plexus Corp. - President, CEO

I'm going to comment just a little bit on regional growth trends, at least for the moment; and then Todd is going to make a few comments on the sectors and where we think we are going to see growth. I did make the comment here in the new wins performance this past quarter was that 78% of the revenue total that we just announced, 78% of the \$193 million was for the Americas region. So we think that is a really positive outcome. Part of our strategy here is to get more balance in our revenue growth across the regions; and in this particular quarter we did a really nice job of doing that, so that was a really good outcome.



Secondly, for this fiscal year, the year that we are in, fiscal '13, of course part of our strategy has been to get a foothold here in EMEA and start to accelerate growth in that marketplace. Right now we are on track to have as much as a 50% revenue increase in our EMEA region overall F13 versus F14. So we're doing a nice job getting traction in that marketplace.

A lot of that is the consequence of our new operation there in Oradea, Romania, which of course you know we are going to have a new facility come online here in the spring, but also some improvement in how we target new business for our facilities in the UK.

So we have seen a good, strong outcome here with -- you know, the -- Steve Frisch on the ex-pat assignment in the EMEA region, putting up the new design center in Darmstadt, Germany, starting to get some brand recognition in that marketplace, so we are starting to get some nice traction. So obviously a smaller region for us overall, but still some nice progress.

So, Todd, if you want to make some commentary on sectors?

Todd Kelsey - Plexus Corp. - EVP, Global Customer Services

Sure. Steve, I think what I will do is start out by discussing wins just a bit and then really how the forecast or end-markets shape up.

From a wins standpoint, if you look at the six quarters of, call it, outsized wins that we've had, it's pretty well balanced across our sectors. We feel really good about the win data in each of our market sectors there.

Now, if you look at the current quarter, though, as Dean mentioned, it was really dominated by Networking/Communications where we have I would call it two quite significant wins within that sector. One was a major share gain with what we call a Communications customer; the other was a continued growth of a major Networking customer. So that was about \$135 million of our \$193 million worth of wins within that sector.

Now, if you look at end-markets, I would say that Networking/Communications and Industrial/Commercial in particular are challenged in the end-markets right now. So I would characterize most of the growth as coming out of Medical and Defense/Security/Aerospace particularly as we look forward into F13 and F14, because of the end-market headwinds with Networking/Communication and Industrial/Commercial. Although there is -- if the markets change, there is the winds to be able to show growth within those sectors as well, too.

Steven Fox - Cross Research - Analyst

Great. That's all very helpful. Thank you very much.

Operator

Jim Suva, Citi.

Jim Suva - Citigroup - Analyst

Thank you. A quick question clarifying a little bit on the business wins and, Dean, your commentary about striving for fiscal '13 flat growth. If we look at your business wins, they have been absolutely very much impressive the past four quarters or so. And I believe you strived for a run rate of around 30% of trailing sales, that should lead to 15% end-market growth. Maybe those numbers are out of date, or maybe you can let me know if they are true.

So, if that is the case, it seems like even with Juniper tailing off, which the last 12 months was about a 16% customer, it seems like actually this new win rate really could get you into still sales growth for this fiscal year, if I do my math correctly. Or am I missing something? Or is it just end-market softness?



Dean Foate - Plexus Corp. - President, CEO

Yes, if we are referring to F12 versus '13, again we got the \$100 million headwind roughly with Juniper; so that is what they are down from Q12 -- or from fiscal '12 to fiscal '13 overall, as we see it right now.

The second component of this is that the Coca-Cola business was exceptionally strong in fiscal '12, somewhere in the neighborhood of \$190 million to \$200 million of the revenue in fiscal '12. And of course, that -- part of that built a pretty good-sized inventory position with Coca-Cola.

So as we said last quarter, we slowed that down substantially, so we are building at the \$20 million a quarter or less production rate at the moment as Coke's deployment rate is above that, so they're trying to get that inventory position corrected. So if that stays where it's at from a production level for the rest of the fiscal year, we are looking at another \$100 million to \$120 million headwind associated with the Coca-Cola program that we have to overcome.

So, I appreciate your commentary on the strong wins performance. We think those numbers that you stated are accurate. But we have got some challenging headwinds here to overcome with a couple of customers that were, of course, really large in the fiscal '12.

Jim Suva - Citigroup - Analyst

Great. Thanks so much for the clarity.

Operator

Sherri Scribner, Deutsche Bank.

Sherri Scribner - Deutsche Bank - Analyst

Hi, thank you. I wanted to understand a little bit how business ramps through the next couple of quarters and through this year. Just first on the Juniper business, how much of the growth in the fiscal second quarter do you expect to come from Juniper?

And as it relates to the second and the third quarter, as they finalize that business, would you expect the business to be -- it looks like maybe it's going to be about \$100 million each of those quarters. Would you expect it to be balanced between the two or would you expect it to be more of a ramp in the third quarter?

Dean Foate - Plexus Corp. - President, CEO

I'm trying to think; if I remember right, for the Q2, was it about 50% of the upside was relative to Juniper's improvement overall? I am looking at Todd. I'm trying to remember exactly.

Todd Kelsey - Plexus Corp. - EVP, Global Customer Services

I believe so.

Dean Foate - Plexus Corp. - President, CEO

I think it is somewhere in that neighborhood. So when you look at the sequential growth from Q1 to Q2, somewhere in that neighborhood is the Juniper increase in demand. So obviously the rest of it then will be associated with other programs ramping up.

Relative to Q3, as I understand it right now -- and again, a lot of this could change, because part of what Juniper is doing with us is giving us what they believe to be a base demand plan to support their customer base, and then part of the demand plan is associated with buffer stock to enable the transition to their other EMS partners. Of course, ultimately how much of that at the end of the quarter ends up being buffer versus how much of it is delivered to customers can change quite a bit based on their end-market dynamics.

But we would think that likely we would see a similar amount of revenue from Juniper Q2 and Q3.

Sherri Scribner - *Deutsche Bank - Analyst*

Okay, that's helpful. Then maybe a question for Ginger, just trying to understand how the margins change, specifically in the fourth quarter. You have given the 4.5% for the third quarter.

Are there additional costs that come out in the fourth quarter that help that? Is the gross margin going to be higher because you are exiting the Juniper business in the fourth quarter? And do you expect that SG&A will come down? Thanks.

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

As we think about the fourth quarter, it is really hard to be more clear on that because we are not sure about the certain timing. Although we think substantially all of the Juniper production will be done by June, it could be there is a very small amount we are still finishing up.

So as we move past that, yes, we expect gross margins would get better. We will also be absorbing those severance costs; and once those are behind us we would have reduced our cost structure, and so we think we can benefit the back half of that quarter.

So taking all that into account, our best estimate is in that neighborhood of 4.5% for fiscal Q4 as well as fiscal Q3.

Sherri Scribner - *Deutsche Bank - Analyst*

Okay, great. Thank you.

Operator

Wamsi Mohan, Bank of America.

Ruplu Bhattacharya - *BofA Merrill Lynch - Analyst*

Yes, good morning, Ginger. Good morning, Dean. This is actually Ruplu filling in for Wamsi today. Good morning.

I just wanted to ask the first question. Looks like in this quarter, am I correct in assuming that the weakness in Networking/Communications was not because of Juniper? Because you said they were a 12% customer, and I think the original expectation was for about \$75 million in revenue.

So if I do the math I think they were short by \$12 million, but the shortfall was \$34 million. So just trying to understand where the shortfall was really. Was it Juniper or was it somebody else? Was it an overall broad weakness you saw in the market?



Dean Foate - Plexus Corp. - President, CEO

Yes, it was -- about 50% of it was Juniper. So, your numbers are pretty close to accurate. The rest of it of course was associated with other customers that also came down during the quarter versus expectations.

Ruplu Bhattacharya - BofA Merrill Lynch - Analyst

Okay. Looking forward, I think you said that Juniper revenues are now \$230 million to \$260 million, and originally it was \$230 million. So just -- that delta, is that just because of more clarity that you have? Or is it because there are some new builds that are happening? So where does that extra \$30 million come from?

Dean Foate - Plexus Corp. - President, CEO

Well, again, I want to be careful about creating derivative reads on Juniper. But this is the demand plan that they are giving to us. Again, some of that is associated with what they believe to be their end-market demand; and the other -- another component of it is associated with buffer builds to support the transition to other EMS suppliers.

Again, what we actually fulfill in demand versus what ends up ending up as a buffer all depends upon how the quarter ends up, which can be quite a variable based on the last few weeks of the quarter and the demand-pull signals that we get.

Ruplu Bhattacharya - BofA Merrill Lynch - Analyst

Got it. I guess the last one for me, Dean, have you ever broken out the funnel in terms of end-markets? I know the new wins rates, you have always given us a breakdown. But of the \$2.1 billion or whatever you have in terms of the funnel, can we get a breakdown either by region or by end-market?

Dean Foate - Plexus Corp. - President, CEO

We typically have not broken down the funnel overall. I guess we will have a discussion about whether we begin to give you that little clarity.

Ruplu Bhattacharya - BofA Merrill Lynch - Analyst

Okay.

Dean Foate - Plexus Corp. - President, CEO

Suffice it to say that right now I'll just give you a few details in that. About a third of it right now is in Healthcare/Life Sciences and so a pretty strong piece of it.

Ruplu Bhattacharya - BofA Merrill Lynch - Analyst

Okay. Sorry, the last one for me. In the Networking/Communications segment you did say that the forecast has improved now for a majority of your customers; correct?

Dean Foate - Plexus Corp. - President, CEO

It has improved versus what we saw in Q1. Right. Yes.

Ruplu Bhattacharya - *BofA Merrill Lynch - Analyst*

All right. Okay. Thanks so much.

Operator

Amit Daryanani, RBC Capital Markets.

Amit Daryanani - *RBC Capital Markets - Analyst*

Thanks, just two questions for me. One, I want to clarify this; but you guide for March quarter up 6% sequentially, adding about \$30 million in revenues. Sounds like that's largely Juniper driven because of transition builds, because of builds ahead of transition. Is that the right way to look at it, or am I missing some other pieces?

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

Well, it's about 50% of it. (multiple speakers)

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

Yes.

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

The Juniper increase is about 50% of that growth. Part of that is for buffer and part of it is what we would interpret to be end-market demand improvement. But again that's pretty squishy, that dividing line between buffer versus end-market.

Amit Daryanani - *RBC Capital Markets - Analyst*

Got it. So the way to think of it is 2, 3 points uptick is normal seasonality potentially, and the rest of it is Juniper driven due to the two issues that you discussed. Right?

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

Yes, I think that's fair. Right.

Amit Daryanani - *RBC Capital Markets - Analyst*

All right, fair enough. Then I guess, Ginger, when you look into maybe the September and December quarters and you're looking at 4.5% margin targets, is OpEx going to be around this \$25 million run rate at that point? Is that the right math to think about?

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

Well, operating expense -- so SG&A, Amit, is running between \$29 million and \$30 million right now. So I would expect that will tick up modestly, a little bit, in the June quarter as we implement the annual merit increases that I talked about.



Other than that, our goal is to hold that flat, flattish, through the end of fiscal '13 and into early F14.

Amit Daryanani - *RBC Capital Markets - Analyst*

Got it. All right. Then just finally for me, how do we think about CapEx plans given the fact you may have some extra capacity come onboard with the Juniper transition? So could you maybe just update us on the CapEx spending for the year?

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

Yes. Well, we had two remaining investments under way that we began last summer, that we remain committed to. So we will complete our facility in Romania and we will complete our consolidation site in Wisconsin.

I think after that, it may be a while before we start a new building. Although we certainly have an idea about where we would grow in each region, we certainly are going to be focused on filling that existing capacity and getting the value of that before we invest in new sites.

We will also see a modest benefit in reducing capital expenditures from the ability to repurpose the Juniper equipment. So we have brought down our view of capital spending for equipment in both F13 and F14 because we think we can repurpose that equipment.

So we remain committed to what was under way. We think it is good investments, and we will be probably unlikely to start anything else in F13 or F14 until we absorb that excess capacity.

Amit Daryanani - *RBC Capital Markets - Analyst*

Fair enough. Thanks a lot, guys, and best of luck.

Operator

Brian Alexander , Raymond James.

Brian Alexander - *Raymond James - Analyst*

Okay, thanks. Good morning. Just in order to get to the flat revenue for fiscal '13, it looks like the back half of the fiscal year would need to be up about double digits sequentially in each quarter, June and September, if I back out Juniper. At least that is the math that I did.

And I am just wondering, is that how you are thinking about the business? If so, is that really all coming from the strong wins that you've had? Or are you anticipating a recovery in end-demand in some of your markets?

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

Yes, our assumptions right now are -- it's largely based on the ramp-up of new business. And the assumption right now is that end markets don't get dramatically worse, that they stay flattish or going sideways like they have been.

Brian Alexander - *Raymond James - Analyst*

Okay. Then just a follow-up, Ginger. Can you just clarify that you are not really expecting much of a gross margin decline in the fourth quarter versus the third quarter, given your comments about operating margins and SG&A? I just wanted to clarify that you are actually expecting gross margins

to stay flat or maybe even improve in the fourth quarter from the 9.3% level, despite the fact that the Juniper revenue will be falling off in the fourth quarter. I am just trying to tie those together.

Ginger Jones - Plexus Corp. - SVP, CFO

Yes, we think it will be flattish. We think there are opposing trends there, right? We are going to be absorbing some costs during the transition; but those will be through Q3 and Q4. And then as we move past Juniper, we will see some positive benefit to gross margin. So gross margin will improve once that is behind us.

Brian Alexander - Raymond James - Analyst

Wouldn't you have also some costs associated with the new programs that are ramping, given that that's going to be the biggest driver of your growth? Typically I think as new programs ramp they come in initially at lower margins.

So I am just trying to understand, with the absorbing of transition costs and the ramping of new programs to fill the void in Juniper revenue, how you are going to be able to hold gross margins flat.

Ginger Jones - Plexus Corp. - SVP, CFO

Yes, that is absolutely true, Brian; but I would say those are existing conditions today, right? So we are ramping new programs now. We are absorbing those costs in the results that we are delivering this quarter.

So we don't see that trend accelerating. In fact, we see that some of the work we are doing to reduce costs beginning to offset more of that. And that is why we are forecasting the improvement in the second half of the year.

Brian Alexander - Raymond James - Analyst

Okay, thanks.

Operator

(Operator Instructions) Brian White, Topeka.

Brian White - Topeka Capital Markets - Analyst

Dean, could you talk a little bit about Coca-Cola, what's happening with that program? It sounds like there might have been some inventory build.

Is that all there is to it? And are you still sole source on this program?

Dean Foate - Plexus Corp. - President, CEO

Yes, what we talked about again last quarter, Brian, and what we are saying again this quarter is that the high production rate that we achieved last year built a fairly good-sized inventory position with Coca-Cola. They are taking -- right now we are building at a rate underneath their deployment rate in an effort to get -- so that they can get that inventory position corrected down to a level that they think is appropriate and gives them enough stock available to meet any sort of what I will call episodic or strong end-demand points.

So other than that, there is nothing really to report. We are the sole source manufacturer of the technology, and we will just have to see how their deployment rate unfolds here as we get through the year.

Brian White - *Topeka Capital Markets - Analyst*

Okay. When we think about Juniper, I know last call you were away and overseas; you hadn't had a chance to speak with them. But what was the rationale from disengaging with you guys? You have been working with them forever, did a great job.

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

Well, the rationale isn't much different than what I said on the call back when I was in Asia, in that we were just told in a surprising way on a conference call, or our team was, that we were no longer a strategic fit for Juniper.

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

Yes, we would say any other questions probably on the disengagement need to go to Juniper specifically.

Brian White - *Topeka Capital Markets - Analyst*

Thank you.

Operator

We have no further questions at this time.

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

All right. Well, I guess that's a wrap, then. Thanks, everyone, for the questions and enjoy your day. Thank you. Bye.

Operator

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

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