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PLXS - Q3 2013 Plexus Earnings Conference Call

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OVERVIEW:

Co. reported 3Q13 revenues of $572m and EPS of $0.68. Expects 4Q13 revenue to be $545-575m and EPS, excluding any unanticipated restructuring charges and including approx. $0.08 per share of stock-based compensation expense, to be $0.60-0.66.

CORPORATE PARTICIPANTS

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Plexus Corporation conference call regarding its fiscal third quarter 2013 earnings announcement. My name is Joan and I will be the operator for today's call.

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. Please note that this conference is being recorded.

I will now turn the call over to Angelo Ninivaggi, Plexus Senior Vice President, General Counsel, and Secretary. Angelo, you may begin.

Angelo Ninivaggi - *Plexus Corp. - SVP, General Counsel, Corporate Compliance Officer & Secretary*

Thank you. Good morning, everyone. Thank you very much for joining us today.

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

For a list of major factors that could cause actual results to differ materially from those projected, please refer to the Company's periodic SEC filings, particularly the risk factors in our Form 10-K filing for the 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 and free cash flow. These non-GAAP financial measures are used for internal management assessments because they provide additional insight into ongoing financial performance and the metrics that are driving management's decisions. For a full reconciliation of non-GAAP supplemental information, please refer to yesterday's press release and our periodic SEC filings.

We encourage participants on this call this morning to access the live webcast and supporting materials on Plexus's website at www.Plexus.com by clicking on Investor Relations at the top of the page and then Event Calendar.

Joining me this morning are Dean Foate, Chairman, President and Chief Executive Officer; Ginger Jones, Senior Vice President and Chief Financial Officer; and Todd Kelsey, Executive Vice President and Chief Operating Officer. Let me now turn the call over to Dean Foate. Dean?

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

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

Last night we reported better-than-anticipated results for our fiscal third quarter of 2013. Revenues were up 3% sequentially to $572 million with EPS of $0.68. Our revenue performance was above the midpoint of our guidance range as our Network/Communications and Healthcare/Life Sciences sectors performed better than expected.

While our EPS result benefited from a $0.07 discreet tax event, the underlying result was still strong as a consequence of operating performance initiatives and favorable revenue mix, including strong performance in our Engineering Solutions group.

Slide four. Before Todd and Ginger get into the details on the quarter, I will highlight our progress on some of the focus items that we brought to your attention during our earnings call last quarter. Our new wins performance was strong this quarter after a disappointing result in fiscal Q2. With the continuing end-market weakness for many of our customers, the new wins performance is essential to return to revenue growth in fiscal 2014.

Continuing to manage constructively and effectively through the Juniper disengagement with no surprises. We are now done with production of Juniper products. We will have some sales of Juniper products and components in fiscal Q4 as part of the agreement to build some buffer stock in support of the transition. We anticipate no revenue from Juniper in fiscal 2014.

We have completed the move into our new facility in Oradea, Romania, with no disruptions to our customers. We now have a significant presence and capability [in lower-cost] Europe to drive growth. We completed the move into our new manufacturing and design center in Livingston, Scotland, providing a stronger product realization for our customers in the UK.

Our Fox Cities, Wisconsin, transformation project remains on track with the new facility in Neenah, Wisconsin, anticipated to be complete in Q1 fiscal 2014, setting the stage for consolidation of three facilities in the local area.

We have entered into the final phase of our process to provide our customers with an alternative lower-cost solution in the Americas. We anticipate issuing an announcement during fiscal Q4. Our productivity initiatives are delivering improvements in operating performance and working capital.

And, finally, one other item of significance. We returned Plexus to a corporate structure that includes a Chief Operating Officer to provide greater organizational alignment, accountability, and operating performance across our enterprise as we continue to scale globally.

As part of the reorganization, we created new opportunities for other talented Plexus leaders, including Steve Frisch, who recently returned from his assignment leading our EMEA region. Steve has assumed Todd's prior role leading global customer services. Steve will participate in our earnings calls and investor relations activities from time to time.

In summary, we accomplished a great deal in fiscal Q3 and delivered results ahead of expectations.

Moving on to our guidance on slide five. We are establishing fiscal fourth-quarter 2013 revenue guidance of $545 million to $575 million. The midpoint of this guidance range suggests that our fiscal fourth-quarter revenue will be down modestly when compared to our fiscal third quarter, largely driven by a step down in the revenue from the Juniper disengagement that we are not able to fully overcome with other customer growth.

Despite the modest revenue decline, we anticipate that we will achieve strong operating results and deliver diluted EPS in the range of $0.60 to $0.66, excluding any unanticipated restructuring charges and including approximately $0.08 per share of stock-based compensation expense.

Looking further ahead, we currently anticipate a meaningful sequential decline in revenue in our fiscal fourth quarter of 2014 as we face the first full quarter revenue headwind associated with the Juniper disengagement. Our current customer forecast suggests that we return to sequential growth in the second fiscal quarter for 2014.

With that I will turn the call over to Todd.

Todd Kelsey - *Plexus Corp. - EVP & COO*

Thank you, Dean. Good morning. Advancing now to slide six for some insight into the performance of our market sectors during our fiscal third quarter of 2013 and our current expectations for fiscal Q4.

Our Networking/Communications sector was up about 2% sequentially in fiscal Q3. The result was significantly stronger than our expectations for a mid-single digit percentage decline as our top three customers in this sector all outperformed earlier forecasts. Excluding Juniper, fiscal Q3 Networking/Communications revenues were up 10% sequentially as a result of the growth of our other top customers and new program ramps.

We are cautiously guiding a low to mid-teens percentage decline in our Networking/Communications sector revenues in fiscal Q4. We are seeing some volatility in end-markets and our Juniper revenue will be approximately half of the Q3 levels, as we will only have inventory sales within the quarter as we complete the Juniper disengagement plan. The Juniper revenue will be split fairly evenly between finished product at normal margins and raw material at lower margins.

The Juniper reduction and end-market volatility will be partially offset by other customers that are ramping new programs or are forecasting improved end-market demand. Excluding Juniper revenues, we are projecting mid-teens growth within the sector.

Our Healthcare/Life Sciences sector performed slightly above our original expectations with the revenue result up above 10% sequentially as our top customers all performed above expectations. We originally expected mid to high single-digit growth. Looking ahead to fiscal Q4 we currently anticipate revenues in our Healthcare/Life Sciences sector to grow in the high single-digit percentage range as new programs ramp and end-markets stabilize.

Our Industrial/Commercial sector was down sequentially about 1% in our fiscal Q3. This was slightly below our expectations of low single-digit growth as two of our top customers fell short of earlier forecasts. We currently anticipate that our Industrial/Commercial sector will be up in the mid-single-digit percentage range in fiscal Q4 as we continue to see strengthening in test and measurement and semi cap equipment.

Our Defense, Security, and Aerospace sector was down about 3% in Q3 a result of a softer than our expectations of low single-digit percentage growth. A major security customer was down significantly and we had some softening in our aerospace component of this sector. We currently expect Q4 to be flat to Q3 as we see a further pullback from the security customer previously mentioned offset by new program ramps and improved demand in the remainder of the sector.

Now turning to new business wins on slide seven. During the quarter we won 28 new programs in our Manufacturing Solutions group that we anticipate will generate approximately $212 million in annualized revenue when fully ramped into production. The new program wins performance this quarter continued to be strong for our Americas region, representing 54% of the revenue.

On a sector basis, our Healthcare/Life Sciences sector was the strongest performer this quarter with 41% of the total, although all sectors showed good performance. Included in these wins were several programs from GE Healthcare. We were very proud to recently announce and celebrate the 30th year anniversary of our partnership with GE Healthcare, a customer relationship that continues to be transformative.

In addition, we had a record quarter in Engineering Solutions wins with approximately $25 million in new programs. This total was particularly strong in our Healthcare/Life Sciences sector where we continue to differentiate in the marketplace.

Slide eight. Our wins performance in fiscal Q3, as shown by the overlay green bars, recovered nicely from our soft Q2 and was in line with our strong performance of the previous several quarters. As a result, our trailing four quarters wins, as shown by the blue bars, was at $782 million, which is sufficient to keep our wins momentum above our 30% goal. We are driving hard to continue this performance in coming quarters to sustain our goal of returning to growth in fiscal 2014.

Advancing to slide nine. Our funnel of new opportunities remains strong at $2.2 billion, near our record level of the previous quarter. Our objective is to continue to harvest at the current rate while backfilling the funnel. We believe a total funnel of over $2 billion is sufficient to sustain our wins performance.

As we look ahead to the fourth quarter of fiscal 2013 and into fiscal 2014, we have a number of previously announced longer-term projects recently completed or underway. These projects include our manufacturing facility in Romania, which was completed in the fiscal third quarter shown on slide 10.

All business has been transitioned from our leased facility into the new facility. This purpose-built factory increases our square footage in Romania from 72,000 to 300,000. We believe this investment in low-cost manufacturing in EMEA region is critical to our long-term success in EMEA, and we are seeing strong interest from our customers looking to ramp business into the facility.

With the strengthening forecast for our existing sites in Scotland and the ramping of customers in the new facility in Romania, we expect to see improved operating margin for the EMEA region in FY 2014 inclusive of the operating costs of the new facility.

During fiscal Q3 we opened our expanded design center and new manufacturing facility in Livingston, Scotland, as seen on slide 11. The expanded facility consists of a 15,000 square foot design center and a 47,000 square foot manufacturing site, which features all of the Plexus product realization capabilities including product development, prototyping, and manufacturing under one roof. This site serves as a complement to our Kelso, Scotland, facility in serving UK and other European customers.

As we announced in May 2012, we are pursuing a consolidation strategy of facilities in Wisconsin. We are constructing a new 418,000 square foot manufacturing facility, which is shown on slide 12, that would be complete in the first fiscal quarter of 2014. This will enable us to exit two leased facilities in Neenah, Wisconsin, and one smaller owned facility in Appleton, Wisconsin.

The efficiencies are consolidating manufacturing into one facility, exiting higher-cost lease space, and the benefit of incentives from the state of Wisconsin enable us to deliver improvements to gross margin when this is completed. The Neenah transition will happen over the first half of fiscal 2014 and we expect to incur charges of approximately $4 million to $5 million in severance, facility exit costs, and cost to move equipment. We have not finalized this estimate or incurred these costs, but we wanted to give investors visibility into our plans for this consolidation.

The facilities actions described earlier and other operating performance initiatives underway are designed to return us to our targeted operating margin goal of 5% during fiscal 2014. Our successes in launching our new facilities in Romania and Scotland have demonstrated our ability to manage complex transitions without impacting customer service excellence.

We are confident in our ability to successfully complete the remaining Wisconsin and Mexico projects with similar results. Ultimately, we will have a better operating platform to service our customers and improved operating performance necessary to reach our financial goals.

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

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

Thank you, Todd. Our fiscal third-quarter results are summarized on slide 13. Third-quarter revenue was $572 million, at the top end of the guidance range for the quarter.

Gross margin was 9.7% for the fiscal third quarter, above our expectations and above our fiscal second-quarter results of 9.3%. Gross margin was positively impacted by offering performance initiatives, customer mix, and good performance from the Engineering Solutions organization.

Selling and administrative expenses were $30.3 million, slightly above our expectations for the quarter. SG&A, as a percentage of revenue, was 5.3% in the fiscal third quarter, slightly higher than the fiscal second quarter. Operating margin was at the top end of expectations at 4.4%.

We recorded a tax benefit of $260,000 during the fiscal third quarter, the result of a $2.2 million discrete tax item recorded during the quarter. The discrete tax item was related to the settlement of an interest rate swap during the quarter, resulting in lower tax expense and positively impacting diluted EPS by $0.07.

Turning now to the balance sheet on slide 14. Return on invested capital was 13.2% for the fiscal third quarter of 2013, a 50 basis point improvement from the prior quarter and 120 basis points above our weighted average cost of capital for fiscal 2013, which is 12%. ROIC has improved throughout the fiscal year, although still below the 15.5% we delivered in fiscal 2012 and our long-term target of 500 basis points better than our weighted average cost of capital.

During the quarter we repurchased 533,000 of our shares for approximately $14.5 million at a weighted average price of $27.19 per share. Fiscal year-to-date we have repurchased 1.4 million shares for approximately $36 million at a weighted average price of $25.55 per share.

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 expect to complete this repurchase program relatively consistently over the balance of the fiscal fourth quarter.

Our cash cycle at the end of the fiscal third quarter was 59 days, lower than our expectations and five days lower than our results in the fiscal second quarter. This is a very good result for us, which is a reflection of working capital initiatives we have been working on for several years and the impact of the Juniper disengagement. In total, working capital decreased by approximately $21 million during the quarter.

Days in receivables decreased by one day to 54 days. As we said last quarter, we expect this downward trend to continue into the fiscal fourth quarter as we complete the exit of Juniper.

Days in inventory were 78 days, down nine days from our results in the prior fiscal quarter. Essentially all of this reduction in inventory during the quarter related to Juniper, as we had meaningful inventory sales under the disengagement agreement.

Accounts payable days were 54 days, down from the prior fiscal quarter. The lower payable days was the result of the timing of inventory purchases during the quarter and is expected to return to more normal levels in the fiscal fourth quarter.

Days of cash deposits increased by two days to 19 days. This includes approximately $60 million in deposits from Juniper related to the disengagement. Effectively, these deposits allow us to capture much of the benefit to working capital we expect from the Juniper disengagement. These deposits will be offset by reductions to inventory from sales of inventory at Juniper or their new suppliers in the fiscal fourth quarter.

Free cash flow during the quarter was $23 million. During the quarter we generated $54 million in cash from operations and spent $31 million in capital expenditures with approximately $26 million of that capital from footprint expansions in Romania and Wisconsin.

I will now turn to some comments on the fiscal fourth quarter of 2003, which are summarized on slide 15. We are establishing fiscal fourth-quarter revenue guidance of $545 million to $575 million. At that level of revenue we anticipate EPS in the range of $0.60 to $0.66, excluding any unanticipated restructuring charges and including approximately $0.08 per share of stock-based compensation expense.

Gross margin is expected to be in the range of 9.8% to 10%, up from our gross margin of 9.7% in the fiscal third quarter of 2013 and close to our targeted 10%. This improved gross margin is the result of our concerted efforts to improve margins that began in our fiscal first quarter of this year.

In addition, margins in the fiscal fourth quarter will benefit from a lower level of expected revenue with Juniper. This customer is dilutive to margin and we will continue to see the impact of the disengagement on margins in the fiscal fourth quarter.

We expect SG&A costs to be similar to spending levels in the fiscal third quarter in the range of $29 million to $30 million. At the midpoint of our guidance range this revenue will result in approximately 5.2% to 5.4% SG&A as a percentage of revenue. This would be consistent with the 5.3% in the fiscal third quarter.

This results in expected operating margin of approximately 4.5% to 4.6%, which demonstrates our continuing improvement in operating performance over the fiscal year.

A few other notes. Depreciation and amortization expense is expected to be approximately $12.5 million in the fiscal fourth quarter, up slightly from the $12.4 million in the fiscal third quarter. We are estimating a tax rate for fiscal 2013 of 4% to 6%, below our fiscal 2012 rate of 7%.

Our expectations for the balance sheet are for working capital dollars to be down from the fiscal third quarter. Based on our forecasted levels of revenue, we expect these changes will result in cash cycle days net of cash deposits of 58 to 62 days for the fiscal fourth quarter of 2013, another quarterly improvement and the lowest level of working capital in several years.

Our capital spending forecast for fiscal 2013 is now $100 million. This estimate includes the completion of our consolidation facility in Wisconsin.

Finally, we will be holding our investor day on September 12, 2013, in Chicago, Illinois. Management will be sharing their perspective on the business and we will offer a tour of our Buffalo Grove facility. We hope that many of you can join us at this event.

With that I will turn the call back to Dean for a few closing comments. After Dean's comments, we will open the called for questions. We ask that you please limit yourself to one question and one follow-up.

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

All right, I just put up a few closing items here that I think are really important for us to focus on as a team as we go forward into the coming quarter. Of course, first and foremost, we want to make sure that we wrap up the Juniper disengagement. As I said earlier, at this point we have had no surprises so I don't expect any as we close out the Juniper disengagement in the coming quarter.

The Fox Cities, Wisconsin, transformation, as Todd laid out in great detail, is a complex transition of a few facilities into the single new facility. And, of course, we need to execute that flawlessly over the coming quarter. I have got complete confidence that we will and that we will protect our customers through that process.

Momentum into the new facility in Oradea is also critical as we have a significant facility now in place. We have had a good pipeline of new opportunities build during the course of us putting up that facility in anticipation of it, so now we need to close those opportunities and get them into the facility and keep the momentum going.

Americas, we have been talking about this for some time that we are challenged in terms of our value proposition in Juarez because of the brand of and reality of violence and challenges in that location. And so we continue to feel that it is really important for us to have an alternative for our customers. We have been working diligently through a process to locate a facility or a place where we could greenfield a facility, and we are very close to a decision on that. You should anticipate that we will finally make an announcement here in the current quarter.

New wins are really important for us in as we look to drive growth in fiscal 2014. Of course we had a soft Q2. We have gotten back on track here Q3 and had a result that was above our target, so we are really pleased about that. But we need to continue to close down on opportunities here and continue to drive growth momentum through 2014.

Then, finally, we have to recognize that the growth environment is more challenged right now with the economic delays around the world and so we need to continue to work hard to find ways to deliver on our financial model. We have a number of initiatives in place here that we believe are going to allow us to have a more flexible financial model that allows some delivery results in spite of, perhaps, a more challenging growth environment.

And with that we will turn it to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Shawn Harrison, Longbow Research.

Shawn Harrison - *Longbow Research - Analyst*

Good morning, everyone. Just wanted to get the first question out of the way, which is the material decline anticipated for first fiscal quarter revenues. I see in the presentation Juniper sales will be down about $42 million sequentially, so that is material. But how much of that do you expect to offset with program ramps and just business growth?

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

I think Ginger's intuition was that word would get everyone's attention and, of course, it did as we saw in some of the pre-notes and consistent with your question. I think we wanted it in there because we wanted to draw attention that there is a misalignment right now between what we had been guiding for Juniper revenue in Q4 and what we are actually going to see in Q4 for Juniper revenue.

So we had been guiding that we thought we would see about $30 million to $35 million of revenue in Q4. That number is now going to be $42 million in Q4. And so the incremental decline now into Q1 is going to be greater than where the Street had it aligned when you look at the quarter-over-quarter number.

So having said that, let me just say that it is difficult right now to guide with any precision Q1. We are getting decent visibility a quarter or so, but there has been quite a bit of volatility. Well, the volatility has led to more bias that is more up than down. Still there is a lot of inaccuracy in Q1.

But right now I would say that the Street's absolute kind of consensus on Q1 is probably as good a number as any. It is just that we are going to be stronger in Q4 because the Juniper revenue is going to be a little stronger in Q4 than we had anticipated.

So we would anticipate overcoming some of the $42 million revenue headwind, a fair amount of it. But there is a bit of a gap right now given that there is about a $9 million to $10 million difference, I think, between what the street was thinking was going to happen with Juniper revenue and what is really going to happen with Juniper revenue quarter over quarter.

Shawn Harrison - *Longbow Research - Analyst*

Okay. So just to be clear, I think the consensus is about $540 million for the December quarter. You are at least -- the best guess right now is you are somewhat comfortable with numbers in that range?

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

I think the number I see is closer to $546 million, at least in our number on the Street, but somewhere in there. And that is, I would say, a reasonable number at this point.

Shawn Harrison - *Longbow Research - Analyst*

Okay. That is very helpful. Then just a couple brief follow-ups. The restructuring charges for early 2014, will that be run through the P&L? Just second, kind of the tax rate for early 2014 as well -- into 2014, excuse me.

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

Shawn, this is Ginger. Our anticipation now is those restructuring charges for the Wisconsin transition will be called out as restructuring and will not be included in the operating costs given their magnitude. Then the tax rate, I think a rate of 4% to 6% is a good estimate for fiscal 2014 as well.

Shawn Harrison - *Longbow Research - Analyst*

Okay. Thanks a lot, Ginger.

Operator

Steven Fox, Cross Research.

Steven Fox - *Cross Research - Analyst*

Good morning. Just a couple questions on margin. So you mentioned a margin benefit in 2014 from the new operations in Europe; I was wondering if you could sort of quantify that in terms of how that plays through and how much it is contributing in coming quarters?

Then, secondly, just on Juniper. If I understand what you are saying about the remaining Juniper products that are going to ship, it seems like it is a net margin benefit for the quarter. I was wondering if I have that right. And, secondly, as that leaves, as that business winds down, what does it means for margins in the following quarter? Thanks a lot.

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

Steve, I will take those questions on margin and then Todd can jump in if he wants to.

On EMEA we certainly are seeing some benefit to margins in 2014, although I don't know that we are confident enough in them now that we would share that. I think we will talk about that as we go through the year. And that is a result of it being a relatively new facility where we have made big investments in Romania and an increasing revenue pipeline we think, which we think will help offset those costs.

So I would say directionally we think the trend is going to be helpful, but we are not ready to quantify that yet.

Then on Juniper, there are lots of puts and takes on Juniper in the fourth quarter. There is about $42 million of revenue. A portion of that is at normal Juniper margins because it is components that we manufactured and a portion is raw materials.

But all-in we believe that is positive to margins in the fiscal first quarter, partly because it is less than the $80 million or so that we saw in the fiscal third quarter. As we have said, Juniper overall is dilutive to our margins so as we exit that we are seeing the anticipated benefit to margins that we thought we would.

Steven Fox - *Cross Research - Analyst*

If I could just make sure I understand the Juniper common. So even though this quarter you are shipping product without any associated production, next quarter it is a net positive effect even into next quarter because there is lower margin -- it's lower margin sales?

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

That is correct. Did you want to add on to that, Todd?

Todd Kelsey - *Plexus Corp. - EVP & COO*

Yes. So, Steve, just to clarify, the labor is in the product that we are shipping. I mean basically we acknowledge those costs when we ship the product.

So, overall, Juniper is dilutive to our margins from an absolute standpoint. It helps us because it is less Juniper to margins in the quarter.

Perhaps, too, I can provide just a little bit of extra color around your EMEA question and really as it relates to Oradea. If we look at moving the needle, the absolute size of EMEA, I mean it is a relatively small region for us, doesn't move the needle in big ways. But where we are at with Oradea we are really excited about.

Again, the site is about a breakeven site right now but we get huge leverage from incremental revenue within that site. There is an enormous amount of capacity right now. As tooled, it is a very efficient organization. We are running about 72% as-tooled capacity in Oradea, but the max capacity we have an enormous amount of capacity. And there are several, I mean there are five or six what I would call anchor customers within that site that have the ability to grow in a meaningful way.

Steven Fox - *Cross Research - Analyst*

Great, that is all very helpful. I appreciate the color, thank you very much.

Operator

Sherri Scribner, Deutsche Bank.

Sherri Scribner - *Deutsche Bank - Analyst*

I wanted to just dig into the commentary about the networking segment. You have been pretty clear about the Juniper business, but you did give some commentary about the rest of your customers. I think you said the top three customers were better than expected and you gave the guidance of, I think, mid-teens growth ex-Juniper for the rest of your business.

Can you give us some commentary about what your customers are seeing? And also, to put it in context, is a mid-teens growth rate for that segment normal for a fourth quarter or --? It seems a bit high, so just wanted to get some understanding there. Thanks.

Todd Kelsey - *Plexus Corp. - EVP & COO*

Sherri, this is Todd. I will take that again.

With respect to the growth, I think the growth is above normal but it is really being driven primarily by new program ramps and wins that we have had within that sector over the course of the last four to six quarters. So we are seeing the impact of that right now.

With respect to the top three customers being up, in that top three is Juniper. And that is up to expectations, so Juniper was down from an absolute standpoint. The other two of our top three customers were also up quarter on quarter and they also beat our expectations. And that was primarily success with new programs that they are ramping.

So we are seeing some good traction from those customers, and that was at least as meaningful of a bead as the Juniper one was.

Sherri Scribner - *Deutsche Bank - Analyst*

So just to clarify, it sounds like you are emphasizing the new programs, but what are you seeing in the end-markets from your customers' perspective? Are they expecting a lot of strength in the second half?

Todd Kelsey - *Plexus Corp. - EVP & COO*

No, they are very volatile yet. Not a lot of visibility.

Sherri Scribner - *Deutsche Bank - Analyst*

Okay, great. Thank you.

Operator

Amit Daryanani, RBC Capital Markets.

Amit Daryanani - *RBC Capital Markets - Analyst*

Good morning, guys. Couple of questions. One, maybe you could just talk about where do you see the $100 million CapEx plan being focused on in fiscal 2014? It seems like a fairly large number given the fact you guys actually did some research and take some costs or sites out in the last few quarters.

Maybe you could talk about what that CapEx is catered for and then maybe implied within that what is the revenue growth that are you anticipating in fiscal 2014 to require that kind of investment?

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

Thanks, Amit. I am not sure if I misspoke, but -- so the $100 million number was for fiscal 2013, and that is slightly higher than we had talked about a quarter ago but in line with our expectations. And as you mentioned, it is related to the significant improvements we are doing in Wisconsin and Romania.

If I look ahead, we have not guided a number yet for fiscal 2014, but I would expect it to be down meaningfully from that number. We will have a little bit of finish up on our Wisconsin facility and we will be making our investments in Guadalajara, but other than that we have no other major projects that will be going on in fiscal 2014.

Amit Daryanani - *RBC Capital Markets - Analyst*

Fair enough. That clarifies it. Then when I think of the restructuring initiative regarding the Fox Cities sites that you guys are looking at, when do you expect the savings from that $4 million to $5 million of researching charges start flowing through? I am assuming it is the back of fiscal 2014. And is that the trigger; is that the catalyst that you need to get to that 5% op margin target?

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

You are right about the timing, so we will see those benefits in the second half of fiscal 2014. I think it helps get us to our full 5% operating margin. I don't know that we wouldn't get there otherwise, but certainly it's part of our task back to 5% in fiscal 2014.

Amit Daryanani - *RBC Capital Markets - Analyst*

Thank you.

Operator

Brian Alexander, Raymond James.

Brian Alexander - *Raymond James - Analyst*

I just wanted to be clear, Dean, on the December outlook once again. You said you are comfortable with consensus, which I think you said was $545 million or so. I show $539 million as Shawn pointed out, and that would only be down about 3% to 4% sequentially versus the midpoint of your September guidance of $560 million. So it doesn't look like alarming or a meaningful decline.

So I just wanted to reconcile the meaningful decline comment with what looks to be a pretty modest decline, and ex-Juniper looks to be like mid-single-digit growth.

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

Yes. I guess it all depends on how all the customer forecasts shake out in Q1, and I guess it is a question of how you characterize modest versus meaningful. But again, our numbers -- our street numbers I guess are a little bit different than what you are showing at this point. But again, I would just reiterate that The Street's consensus for Q1 is as good a number as any at this point, given the direction that we see from the growth of other programs with other customers, and given where we see Juniper stepping down.

I just felt that if we end up with a very strong Q4 that we are not going to recover all of that through growth of other customer programs into Q1. The step down could be more than 3% if we get to the top of the range here in Q4. So it just depends upon how the two quarters shake out. But I think there is a possibility it could be a bigger step down given how those two quarters shake out. So everybody was paying attention to it.

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Brian Alexander - *Raymond James - Analyst*

That is helpful. Just a couple of follow-ups. On fiscal 2014, do you still think modest growth is a reasonable assumption for the year? Because if I back out Juniper, it implies about mid-teens growth which is more consistent with your long-term goal. So do you think that is still possible?

Then, Ginger, just to clarify on the 5% operating margin, is that something that you think you could achieve for the full year, or is that something that you think you will achieve more in the back half of the year? Thanks.

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

On the growth, again, it is difficult to guide 2014 but we definitely are anticipating growth in the year. And, of course, the way we roll the forecast now, granted, visibility is not great. But the programs that we are ramping now in conjunction with what we anticipate bringing into the business here over the next quarter or so would certainly drive us to reasonable top-line growth in 2014, although I am not going to peg it to a percentage at this point.

I think we will give you a little bit better clarity on that as we come into -- certainly into the earnings call as we wrap up the fiscal year. And depending upon the level of clarity we have in the end-markets, we may even get into that a little bit at our analyst day when we -- I guess that is early September in Chicago. It is a little bit too soon and there is a little bit too much volatility here to try to peg it at this point.

Relative to margins, I will let Ginger take that one.

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

Thanks, Dean. As we look to 2014 there are a lot of positives for us, including the strong margin we are delivering this quarter and in the fiscal fourth quarter. The first quarter of fiscal 2014 is going to be the most challenging for us. With that step down in revenue, we are going to have some issues with leverage.

We have looked at that and we feel pretty confident we can manage that to mid to low 4% operating margin, so to kind of give you a bottom for what we think that might be in the first fiscal quarter. We believe operating margin improves from there and we are very committed to 5% during fiscal 2014. We are not ready to say when and whether we can hit it for the full year in total, but there are a lot of positives when you think about what we are delivering today and the impact of the Wisconsin consolidation that we expect in the second half of 2014.

So that is the best visibility we have today.

Brian Alexander - *Raymond James - Analyst*

Great, okay. Thanks a lot, Ginger and Dean.

Operator

Sean Hannan, Needham & Company.

Sean Hannan - *Needham & Company - Analyst*

Ginger, thanks on the commentary for the operating margins. I just want to see if actually you could clarify that a little bit more.

When we think about the guidance you have provided for the next quarter and you get to kind of a 9.9% midpoint, and then when we think about the follow-on quarter for December that we should get that margin benefit with the absence of Juniper, just trying to understand how it is that the operating income wouldn't perhaps accelerate a bit more than where maybe some of my prior thinking had been.

To what degree is the SG&A cost not really as pulled back? I know there was a little bit of support there with Juniper costs, but any more clarity there would be helpful. Thanks.

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

Well, the key issue for us in the December quarter is these fixed costs, and so we are going to have a leverage issue in the December quarter with revenue coming down. The amount that we expect, whether it is modest or meaningful. So whatever that is we currently anticipate a leverage issue.

Given our view that there is growth throughout the full fiscal year, we are not going to take a hatchet to our SG&A costs or our fixed other costs throughout the organization for a one quarter benefit. We are doing a lot of work to manage those costs and you are seeing the impact of that, particularly on the gross margin line.

So our view is there is downward pressure on the margins in the December quarter from this lack of leverage. But as I have talked about, I think the bottom is low to mid 4%s, somewhere between where we were this quarter and where we were in the March quarter. And then we would see improvements around the balance of fiscal 2014.

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

Your observations are correct. If you look at what our guidance on EPS implies on the revenue, it implies very strong, of course, operating performance in Q4 with that level of revenue. And I think that you could anticipate that if we are back to that level of revenue or close to it in fiscal 2014 in a given quarter that the margins would come back up into that neighborhood.

We have a couple of things that we are working on that will further improve that margin performance later in the year. Namely one of which, of course, is the Fox Cities consolidation, which will give us some level of benefit. So just it depends on how the revenue top line plays out as we move through the year.

Sean Hannan - *Needham & Company - Analyst*

That is very helpful. That ties up a lot of loose ends for me, so thanks on that.

Then in terms of the ROIC, when you look at your 17% goal, at this point I would have to assume -- maybe I am wrong -- that you might have a very visible pathway to getting back to that target level. Wanted to get your insights around that and how long this could take for that to materialize for you?

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

We do, Sean, have a path to meaningful ROIC improvement in F2014, and that is driven both by the numerator and the denominator. With operating margin improvements and with the reductions we have shown in working capital which we expect to continue modestly through F2014.

Whether we get back to the full 500 basis points above our weighted average cost of capital is something I'm not really willing to commit to. And part of the reason I say that is that in many ways we see that as a really great result, but in some ways it is also a stretch goal. And so we think we deliver meaningful value to shareholders at 300 basis points above weighted average cost of capital.

So we are clearly committed to getting back to the full amount, largely because -- all of our enduring goals; ROIC is a significant portion of that. So we are very committed to it and we have clearly got a path to significant improvement in F2014, but I guess I'm not willing to say yet how soon we are going to get there.

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

Well, considering 40% of our bonus plan is tied to ROIC, we are all motivated, of course.

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

Yes, we structure our incentive plans here to really incent people to focus on the enduring goals. As we have shared before, 40% of our bonus is based on revenue growth, hitting our 15% target, and another 40% is based on hitting the full 500 basis points above our ROIC.

Sean Hannan - *Needham & Company - Analyst*

Fair enough. Thank you very much for the color.

Operator

Jim Suva, Citi.

Jim Sava - *Citi - Analyst*

Thank you and congratulations to you and your team there at Plexus. Many of the good questions have been asked, but I wanted to follow up a little bit on a couple of areas that potentially could be future catalysts, and that is I think the Aerospace/Defense and Industrial markets were a little bit weaker than expected.

Were those, like, timing push out issues due to sequester? Was it order cancellations? Was it customers shifting around things, or do you just think that that will kind of come back here in the next couple of quarters?

Todd Kelsey - *Plexus Corp. - EVP & COO*

So, Jim, I think there are a bit of -- and this is Todd -- I think they were a bit of isolated events. If we look at our Defense/Security/Aerospace sector, of course that is really three sectors -- defense, security, and aerospace. We had basically a softening of a really good customer of ours in the Security sector that really drove the bulk of the result.

We were a hair weak on Aerospace, and I mentioned it, but it is not a meaningful trend. I mean if you look at the Aerospace market, flight time is at an all-time high, orders are at an all-time high, and we are positioned on all the really good growth platforms. So we feel really good about where our Aerospace business is headed in the future. But I would say we have primarily a one-customer anomaly that is driving those numbers within the sector.

Industrial/Commercial is a bit of a similar situation. We have a couple of large customers that were weak. We are seeing some strengthen in our customer base in semiconductor capital equipment as well as test and measurement equipment. Now based on what we see from market data, we think this is customer specific and not necessarily market specific. That we are partnering with the right guys there.

So I mean there is still a lot of volatility within the Industrial/Commercial sector and that is really what we are seeing in that space.

Jim Sava - *Citi - Analyst*

Great, thank you. Then on the follow-up, and maybe this is more for Dean or Ginger. When we think about the past Plexus and the future Plexus going forward, I think a lot of investors need to understand that the customer concentration risk associated with Juniper now comes to an end.

But looking forward, can you help us understand about did you have any other customers around 10% or above 10%? And once Juniper is completely gone and going forward will you have some customers above 10%? And if so, how many and kind of what segments we should think about those in?

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

Yes, I think the only customer that really is notable is GE overall and the biggest. Of course, we do business with multiple GE business units but the largest is GE Healthcare. Of course, we just announced that we had a celebration that, frankly, they came to us and wanted to do, which is around the 30-year relationship.

We have been gaining share with GE Healthcare now over the last several years and it is one of the things that are catalysts for growth in our Healthcare/Life Sciences sector in the coming year. So we feel really good about our relationship with GE Healthcare and the longevity of that relationship and the relative stickiness of the business.

So I think from a customer concentration standpoint we are probably, at least as far as I can remember back, which is quite some time, is that we are probably in as good of shape now as we have ever been.

Jim Sava - *Citi - Analyst*

Sounds that way. Thank you very much and congratulations to your team there at Plexus.

Operator

(Operator Instructions) We have no further questions at this time. Do you have any concluding remarks?

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

Just thank all the analysts and the investors for the questions and, of course, the support of Plexus. I would thank the Plexus folks that listen in on this call for the hard work over the last couple of quarters. This was really a good quarter for us managing through some challenging situation, and we feel really good about where we set the stage here as we come into fiscal 2014.

Ginger, you might want to remind them once again about the analyst call if you have the date handy. If not, we can --

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

I will do that. So our analyst meeting will be on September 12 in Chicago, Illinois, and we would be pleased to see many of you on the call to join us for that meeting.

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

All right. Thank you.

Operator

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