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PLXS - Q1 2014 Plexus Earnings Conference Call

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OVERVIEW:

PLXS reported 1Q14 revenues of $534m and diluted EPS of $0.51. Expects 2Q14 revenue to be $535-565m and diluted EPS to be $0.57-0.63.

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PRESENTATION

Operator

Good afternoon, ladies and gentlemen. And welcome the Plexus Corp conference call regarding its fiscal first quarter 2014 earnings announcement. My name is Adrian, and I will be your operator for today's call.

(Operator Instructions)

Please note this conference is being recorded. I'll now turn the call over to Mr. Angelo Ninivaggi, Plexus' Senior Vice President, Chief Administrative Officer, General Counsel, and Senior Secretary. Angelo Ninivaggi, you may begin.

Angelo Ninivaggi - *Plexus Corp - SVP, Chief Administrative Officer, General Counsel & Senior Secretary*

Good afternoon everyone, and thank you 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 or implied in the forward-looking statements. For a list of major factors that could cause 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 28, 2013 and the Safe Harbor and fair disclosure statement in today's press release.

Plexus provides non-GAAP supplemental information, such as earnings excluding special items, return on invested capital, and free cash flow. We present information net of special items because it provides a better indication of core performance for purposes of period to period comparisons. Return on invested capital and free cash flow are used for internal management assessments because they provide additional insight into ongoing financial performance.

In addition, we provide non-GAAP measures because we believe they offer insights into the metrics that are driving management decisions, as well as management's performance under the tests that it sets for itself. For full reconciliation of non-GAAP supplemental information, please refer to today's press release and our periodic SEC filings. We encourage participants on the call this afternoon to access the live webcast and supporting materials on the Plexus website at www.plexus.com, by clicking on the Investor Relations at the top of the page and then Events Calendar.

Joining me today 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 afternoon everyone. Please advance to Slide 3. Earlier today we reported results for our fiscal first quarter of 2014. Revenues were $534 million, with non-GAAP diluted EPS of $0.61. Both results were near the midpoint of our guidance range. Our non-GAAP EPS result this quarter excludes $0.10 of restructuring charges associated with a transformation project here in the Fox Cities, Wisconsin. As anticipated, our revenues declined by approximately $34 million, or 6%, from the prior quarter, as we were impacted by the $40 million revenue headwind associated with our disengagement from Juniper Networks that we announced back in our fiscal first quarter of 2013.

Please advance to Slide 4 for some first quarter highlights. Our fiscal first quarter marks the fourth sequential quarter of operating margin improvement, providing a measure of confidence that our 5% target is achievable. Our operating performance initiatives, in conjunction with solid working capital management, put us in a position to deliver return on invested capital of 14.5%, or 350 basis points above our weighted average cost of capital. Our go-to-market teams delivered $205 million in new manufacturing wins, a strong result that keeps our trailing-four-quarter wins total well above our target, setting the stage for return to top-line growth.

We made good progress on our Fox Cities transformation project, where we are in the process of consolidating three older facilities into our newly constructed facility that was completed this past summer. The construction of our new leased facility in Guadalajara, Mexico remains on track for completion this summer. Customer interest is encouraging. In response to increasing customer interest, we announced an investment in our microelectronics Center of Excellence in our Boise manufacturing site. I believe this extension of our microelectronics capability further enhances our brand as an engineering-centric solutions provider.

Turning now to our guidance on Slide 5. We are establishing fiscal second quarter 2014 revenue guidance of $535 million to $565 million. The midpoint of this guidance range suggests that our fiscal second quarter revenue will be up approximately 3% sequentially. We currently anticipate that our second quarter market sector performance will be mixed. We expect that overall growth will be driven by strong performance in our Industrial/Commercial and Defense/Security and Aerospace sectors, offsetting continuing end market weakness in our Networking/Communications sector. Our Healthcare/Life Sciences sector is expected to be flat.

We are guiding diluted EPS in a range of $0.57 to $0.63. Our EPS guidance includes approximately $0.10 of stock-based compensation expense, but excludes an anticipated restructuring charge associated with the consolidation of the third facility as part of our Fox Cities transformation project. I will now turn the call over to Todd for some comments about our market sectors, operating performance, and initiatives. Todd?

Todd Kelsey - *Plexus Corp - EVP & COO*

Thank you, Dean. Good afternoon. Please advance to Slide 6 for insight into the performance of our market sectors during our fiscal first quarter of 2014, as well as our current expectations for Q2 of FY14.

Our Networking/Communications sector was down 17% sequentially in fiscal Q1, which was in line with our expectations. Performance of our top 10 customers was mixed, with several significantly exceeding earlier forecasts, and an equal number significantly missing expectations. Excluding Juniper, fiscal Q1 revenues were up 4% sequentially within this sector as a result of new program ramps and the growth of our top customers.

We are cautiously guiding a high single digit percentage decline in our Networking/Communications sector revenues in fiscal Q2, as we are seeing broad-based weakness within the sector. 14 of our top 15 customers are projected to be down sequentially, and most have softened over the past quarter. We expect this trend to reverse with growth projected within the sector in Q3 as we capitalize on new program ramps from recent wins.

Our Healthcare/Life Sciences sector performed slightly above our original expectations, with the revenue result up above 4% sequentially as most of our top customers performed above forecast. We originally expected to be flat quarter over quarter. Interestingly, we grew revenue with all of our top 10 customers in Q1 as compared with Q4 of FY13. Looking ahead to fiscal Q2, we currently anticipate revenues in our Healthcare/Life Sciences sector to be flat to Q1, as we see seasonal softness from a key customer, offset by new program ramps.

Our Industrial/Commercial sector was down sequentially about 5% in our fiscal Q1. This was in line with our expectations of a mid-single digit decline, as several of our top customers were down quarter over quarter. We currently anticipate that our Industrial/Commercial sector will be up in the low-teens percentage range in our fiscal Q2, as we are seeing strengthening with several key customers and the impact of new program ramps.

Our Defense/Security/Aerospace sector was up about 1% in Q1, a result that was softer than our expectations of a high single digit percentage increase. Several of our key customers missed expectations, dominated by a major security customer. The aerospace component of this sector was soft as well. We currently expect Q2 to be up significantly in the low to mid-20 percentage point range as compared to Q1, as we are seeing substantial strengthening in aerospace, primarily due to new program ramps.

Turning now to new business wins on Slide 7. During the quarter, we won 29 new programs in our Manufacturing Solutions group that we anticipate will generate approximately $205 million in annualized revenue when fully ramped in production, well above our quarterly target of approximately $150 million. The new program wins were balanced across our regions, with the Americas the largest at 48% of the win revenue. On a sector basis, our wins were balanced as well, with our Networking/Communications and Industrial/Commercial sectors having particularly strong quarters.

Within Networking/Communications, we added a significant new customer and expanded our relationship with a key existing customer. Within the Industrial/Commercial sector, we added two major new customers. Our Healthcare/Life Sciences wins were dominated by new programs from a major customer where we continue to increase our market share. Our Defense/Security/Aerospace sector expanded relationships with several key customers and added a major microelectronics customer. In addition, we had another good quarter in engineering solutions, with new program wins totaling approximately $17 million. Our engineering wins were particularly strong in Healthcare/Life Sciences sector, where our product development capabilities continue to differentiate in the marketplace.

Slide 8. Our wins performance in fiscal Q1, as shown by the overlay green bars, was up from Q4 and was above our goal. Our trailing-four-quarters wins, as shown by the blue bars, is currently at $715 million, which is sufficient to keep our wins momentum well above our 25% goal. This key metric remains at 32%, which we feel is a very healthy number. We are driving hard to continue this performance in coming quarters in order to achieve our goal of returning to growth in fiscal 2014.

Advancing to Slide 9. Despite a strong wins quarter, our teams expanded our funnel of new opportunities to $2.3 billion, well above the previous quarter and near a record level. Our funnel is balanced nicely across our four market sectors, with Healthcare/Life Sciences the strongest. We continue to leverage our quality regulatory and engineering solutions expertise within this critical market sector to drive increased market share. We believe a total funnel of over $2 billion is sufficient to sustain our wins performance.

Turning now to facilities projects. We are about two-thirds complete with the transition into our new manufacturing facility in the Fox Cities, Wisconsin, which is shown on Slide 10. To date, the transition has been flawless. We've established Centers of Excellence for Aerospace, Healthcare/Life Sciences, and Networking/Communications market sectors within the facility. Each of the Centers is actively fulfilling for our customers.

We will complete the transition during the fiscal second quarter, when we will finish the remaining customer transitions and launch our rapid prototyping and after-market services factories. As a reminder, this site enabled us to exit two leased facilities in Nina, Wisconsin and one smaller owned facility in Appleton, Wisconsin, while delivering improved gross margin.

We continue to progress on our new manufacturing facility in Guadalajara, Mexico, shown on Slide 11. This will be a 265,000 square foot facility to enable further penetration into the low-cost Americas market. Construction is advancing according to plan, and the facility is expected to be complete in the third fiscal quarter of 2014.

We're making substantial progress on our microelectronics initiative. In fiscal Q1, we announced an expansion of our microelectronics Center of Excellence in Boise, Idaho, tripling its size and investing in new equipment. The new facility is shown on Slide 12. We've increased our focus by putting in place a new general manager and a dedicated subject matter expert for new business development. We are also leveraging our product development capabilities in regards to microelectronics, providing our customers an integrated service offering across our entire product realization value stream. These investments have directly contributed to several recent wins and a substantially improved funnel. As a reminder, microelectronics margins are typically in line with engineering solutions margins, which are significantly higher than core manufacturing.

Now we will turn to our recent cash cycle performance on Slide 13. Our net cash cycle for Q1 ended at 62 days, within our guidance range. As a reminder, our cash cycle for Q4 of FY13 included a seven-day positive impact as a result of Juniper inventory deposits and timing of Juniper inventory sales. Removing these impacts, our cash cycle was two days higher in Q1 as opposed to Q4, primarily as a result of investing in inventory for new program ramps. When viewing our longer term cash cycle results prior to the Juniper disengagement, we see substantial progress in our metrics. We expect to continue this trend in FY14 through our ongoing supply chain initiatives with our cash cycle exiting FY14 in the high 50-day range.

Finally, as shown on Slide 14, I would like to highlight the results of the progress of our operational initiatives. Our manufacturing solutions, supply chain, and go-to-market organizations had made significant strides on productivity initiatives. As a result, we were able to expand operating margins from 4.0% to 4.8% over the course of the past five quarters. This includes an increase from 4.7% to 4.8% quarter over quarter, despite a contraction of revenue.

When comparing Q1 FY14 operating performance to Q1 of FY13, we see an 80 basis point improvement in operating profit margin on essentially the same revenue. Our operating performance initiatives are designed to return us to our targeted operating margin goal of 5% as we exit FY14 and maintain this performance over the long term. While we expect a seasonal headwind in our progress in Q2, our recent results originating from our operational initiatives provide confidence that we have the improved operating performance necessary to achieve 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 first quarter results are summarized on Slide 15. First quarter revenue was $534 million, near the midpoint of the guidance range for the quarter. Gross margin was 9.6% for the fiscal first quarter, in line with our expectations and consistent with the fiscal fourth quarter results. Selling and administrative expenses were $26.1 million, at the low end of our expectations for the quarter, as a result of continued cost management.

SG&A as a percentage of revenue was 4.9% in the fiscal first quarter, again consistent with the fiscal fourth quarter. Operating margin before special items was at the top end of the guidance range at 4.8%. Diluted EPS of $0.51 includes a $0.10 per share net detriment as a result of after-tax restructuring charges in the amount of $3.6 million, related primarily to the previously announced consolidation of manufacturing facilities in the Fox Cities, Wisconsin. Excluding these restructuring charges, non-GAAP EPS of $0.61 was in line with our guidance.

Turning now to the balance sheet on Slide 16. Return on invested capital was 14.5% for the first fiscal quarter of 2014, a 50 basis point improvement from the prior quarter, and 350 basis points above our weighted average cost of capital for FY14 of 11%. During the quarter we purchased 174,000 of our shares for approximately $6.9 million at a weighted average price of $39.88 per share. The shares were purchased under the $30 million stock repurchase program authorized by the Board of Directors on August 19, 2013. The Company expects to complete the authorized repurchases on a relatively consistent basis over FY14.

Our cash cycle for the fiscal first quarter was 62 days, in line with our expectations. As expected, cash cycle days were nine days higher than our results in the fiscal fourth quarter. In total, working capital increased by approximately $31 million during the quarter. We increased inventory by approximately $36 million to support the ramp of new customer programs, offset by a corresponding $24 million increase in accounts payable. In addition, we returned $26 million in excess cash deposits to Juniper Networks during the quarter under the terms of the disengagement agreement. These cash flows were the primary reason for the negative free cash flow of $18 million during the quarter.

Dean already provided the revenue and EPS guidance for the coming quarter. I will now turn to some additional comments on the fiscal second quarter of 2014, which are summarized on Slide 17. We expect restructuring costs of approximately $600,000 in the fiscal second quarter, related to the completion of the consolidation of manufacturing facilities in the Fox Cities, Wisconsin. These costs are excluded from the guidance discussed today. Gross margin is expected to be in the range of 9.4% to 9.6%. As expected, this is below our gross margin of 9.6% in the fiscal first quarter. This reduction in gross margin includes the impact of merit increases for employees implemented at the beginning of the calendar year, and the reset of payroll taxes for US employees.

We expect SG&A costs to be modestly higher than in the fiscal first quarter, in the range of $27 million to $28 million. At the midpoint of our guidance range for revenue, this will result in approximately 4.9% to 5% SG&A as a percentage of revenue. This increase from the prior quarter is primarily the result of merit increases for employees and the reset of payroll taxes. This results in expected operating margin of approximately 4.4% to 4.6%. A few other notes. Depreciation and amortization expense is expected to be approximately $12 million in the fiscal second quarter, flat with the $12 million in the fiscal first quarter. We are estimating a tax rate for FY14 of 10%, above our FY13 tax rate of 3.2%, and at the high end of our previous expectations of 8% to 10%.

Our expectations for the balance sheet are for working capital dollars to be up from the fiscal first quarter. Based on the forecasted levels of revenue, we expect these changes will result in cash cycle days, net of cash deposits, of 62 to 64 days for the fiscal second quarter of 2014. This increase in days reflects increased working capital investment to support expected higher levels of revenue in the remainder of the fiscal year.

Our capital spending forecast for FY14 remains at approximately $75 million. The majority of this estimate is equipment spending to support new program ramps and the leasehold improvements for our new leased facility in Guadalajara, Mexico. I will now turn the call back to Dean for some wrap-up comments.

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

All right. Well, thank you, Ginger. I thought I'd wrap up our comments today by highlighting a few items that we'll be focused on as we move through the coming quarter. So now we're on Slide 18 here. First, we must continue to achieve new business wins at or above target so that we can deliver modest growth in FY14, and importantly carry growth momentum into FY15. Number two, while we anticipate seasonal cost pressures in our fiscal second quarter as Ginger pointed out, we must continue making progress on our operational and productivity initiatives so that we deliver operating margin in line with our 5% target as we exit FY14.

Number three, we need to complete the remaining facility consolidations associated with the Fox Cities transformation project so that we can begin to benefit from the operating synergies. Number four, we are working to build a management team to lead our new low-cost Americas solution in Guadalajara, Mexico. Five, we must continue to build revenue momentum into our new Oradea, Romania facility. And finally number six, we must stay focused on achieving operational excellence for our customers while endeavoring to provide more value with our unique comprehensive value stream solutions. With that, we'll turn the call back to Adrian and she'll facilitate questions.

QUESTIONS AND ANSWERS

Operator

Thank you.

(Operator Instructions)

We have Wamsi Mohan from the Bank of America online with a question. Please go ahead.

Wamsi Mohan - *BofA Merrill Lynch - Analyst*

Yes, thank you. Dean, just trying to understand the commentary around Networking/Communication. I think last quarter you mentioned the strengthening of forecast, particularly in wireless infrastructure.

This quarter it sounds very different with broad-based weakness, 14 of 15 customers down in your guidance. What do you think changed over there, and are you confident that this is not because of any share shifts?

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

Yes, we're quite confident it's not a consequence of share shifts. It's not to say we don't have specific customers with certain product lines that are actually doing quite well in the end markets.

But I would -- in my view, as I look at the forecast that we had for Q2 a quarter ago as we were looking forward, and I look at the number of reductions in forecasts, I would just liken it to the customers broadly did a reset on expectations for the full year, and kind of pushed it out a quarter.

So we're still seeing pretty decent performance in the back half of the year, but we're seeing kind of a one-quarter reset in overall expectations. Again, not to say we didn't see some decent performance among a handful of the customers with certain product lines, but overall it just seems to be a built of a reset.

Wamsi Mohan - *BofA Merrill Lynch - Analyst*

Okay. Thanks, Dean. As a follow-up, maybe for Ginger, of your operational initiatives, which inning would you say you're in, in terms of driving operating margin improvement?

I know Todd alluded year on year significant operating margin improvement, which is great. But relative to the targets that you guys set back at, or maybe not formal targets, but what you thought you could accomplish in FY14, some of the opportunities that you highlighted at your Analyst Day, 50 basis points of potential improvement in FY14, where do you think you're tracking with respect to that? Thank you.

Todd Kelsey - *Plexus Corp - EVP & COO*

So Wamsi, this is Todd. I'll take a crack at explaining this in a little bit more detail. I would say we're still relatively early in the process, and if you think back to the Investor Day, I had broken this down into FY14 opportunities and longer term opportunities, where the FY14 opportunities were focused around supply chain, really our operational efficiency, which is really equipment and processes and an improved market sector mix.

And then the facilities consolidation in Neenah. I would say we have not really capitalized on any of the facilities consolidation in Neenah as of yet. That's really a second half, or really the back end of FY14 type activity.

The other initiatives, I would say we're well underway but there's still substantially more opportunity. And then as we look out longer term, it really is around enhanced capabilities around the ends of our value stream, more accelerated growth in engineering solutions, accelerating our after-market services offering, and our microelectronics offering as well, too.

So those are really the key focuses as we look further out. I would say we're relatively early but making great progress on really all fronts.

Wamsi Mohan - *BofA Merrill Lynch - Analyst*

Great. Thanks, Todd.

Operator

And we have Jim Suva from Citi online with a question. Please go ahead.

Jim Suva - *Citi - Analyst*

Thanks a lot. I found the comments about security a little bit interesting. Could you give a little bit more color around that?

Was that more like federal government you think caused a ripple effect through things? Do you think it's more the security/Snowden effect, or any like preference or, I want to say, retalitation against orders the US? Help us understand your comments around the security a little bit.

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

Jim, I don't know that I would read too much into it broadly speaking about that, the environment for customers there. This was really the security portion of our overall DSA sector is relatively small, and it's highly dominated for us by the performance of a single customer.

And that customer is just having a difficult time with demand with a specific product that they have in the marketplace. They had a very strong demand through last year, if I recall. I can't remember (inaudible) it came down, but they're struggling a little bit in their end market. I don't think there's a broader read on it.

Jim Suva - *Citi - Analyst*

Okay. And then now that Juniper has kind of gone its way, when you look at your top customers, if I remember correctly you have about 50-ish, 52% are your top 10 customers.

Are there any over 10%? If so, how many and how big would those be?

Ginger Jones - *Plexus Corp - SVP & CFO*

Jim, there ar none of them that are over 10%, and a handful that are slightly below that at kind of 8% to 9% range.

Jim Suva - *Citi - Analyst*

So it seems like Plexus is a lot more diversified now, if I look at it that way. Is that the way you kind of view it?

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

Yes, I think that's a fair assessment, Jim. I think even when you consider the customer that frequently kind of bumps almost up to 10% is General Electric.

And when you contemplate our business with General Electric, certainly a substantial amount of it is in Healthcare/Life Sciences. But we're also building a pretty good position in other markets that they serve, which are really decisions, at least for sourcing, are made very independently among the different major operating units of General Electric.

Jim Suva - *Citi - Analyst*

Thank you very much to you and your team.

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

Thank you.

Operator

And we have Steven Fox from Cross Research online with a question. Please go ahead.

Steven Fox - *Cross Research - Analyst*

Thanks. Good afternoon. Just first off, Ginger, just to clarify, you're saying that the ramps related to, or the inventories related to ramp was $36 million, that was all related to the ramp?

Ginger Jones - *Plexus Corp - SVP & CFO*

That was the increase during the quarter, and yes, I'd say the bulk of that was related to ramps of new programs.

Steven Fox - *Cross Research - Analyst*

And then just in terms of some of the comments around customers, where you have won new customers. I think you mentioned Healthcare and Industrial, and also expanded with a number of customers.

Can you just talk about how much of that was sort of in-sourcing to outsourcing? Any examples you could provide versus, say, market share gains?

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

We'll let Todd take a swing at that.

Todd Kelsey - *Plexus Corp - EVP & COO*

I'm trying to check my notes a little bit here, Steve. Really off the top of my head in looking at the list here, there wasn't a lot of in-sourcing to outsourcing type decisions that were here. It either involved taking product from competitors or new product launches.

Steven Fox - *Cross Research - Analyst*

Okay, great. And then just last question from me, could you talk a little bit about your success on the new programs you've talked about over the last year, 1.5 years? Have you seen much in terms of push-outs, or are things still ramping like you would have thought, say, a year ago with the new wins?

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

Well just generally speaking, I don't know that anything is materially pushing out, but I would say that new programs, like more mature programs, are subject to the same sort of broader economic challenges. And of course the optimism around ramp rates from customers has been, in reality is tempered some from what original expectations were.

We're trying to account for some of that based on our own thought process around economic growth. But clearly new products are going to be affected by that too, to some extent, unless they're really making a new market and there's substantial demand in that new market.

Steven Fox - *Cross Research - Analyst*

Well Dean, I guess what I'm trying to get at is, if I look at the $750 million for example, of trailing four quarter wins, is there a way to say how much that's been diluted because of the economy? Because you seem, as we go forward, trying to figure out what kind of growth rate you could return to, that metric is sort of something that we could use to figure that out.

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

Yes, it is. I think at this point I think that our modeling now is reasonably well accounting for that. Because we've been in this slow growth period now for quite some time. I think that $715 million is reasonable in terms of our typical modeling.

Steven Fox - *Cross Research - Analyst*

Great, thank you. Thanks very much.

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

Unless, yes. Ginger, you want to provide some further clarity to it?

Ginger Jones - *Plexus Corp - SVP & CFO*

No, the only other clarity I'd add for others who might be on the call, the other factor when you think about modeling our revenue going forward is that we add new revenue and overtime as the programs ramp, but we also -- the base business contracts as we have end-of-life program and cost-downs to our customers, and we estimate that at about 10% per year. So when you balance the two of those, Steve as you know, that's what we'd look to model when we look at future revenue.

Steven Fox - *Cross Research - Analyst*

Great. That's very helpful. Thank you.

Operator

We have Sherri Scribner from Deutsche Bank online with a question. Please go ahead.

Sherri Scribner - *Deutsche Bank - Analyst*

Hi, thanks. I just wanted to ask a couple questions on the income statement, Ginger. I just want to clarify. I think you said the tax rate next quarter is 10%, and you expect that going forward. Just curious why did that tick up?

Ginger Jones - *Plexus Corp - SVP & CFO*

That is our estimate for the full year, is that slightly higher tax rate. And that's based on higher earnings and profitability in the jurisdictions where we do pay tax, and for us primarily that is in China because as you know we don't pay tax in Malaysia and our -- and we're not currently paying tax in the US based on our operating results here in the US. It's small changes in the locations where we do pay taxes can have a big impact on our tax rate.

Sherri Scribner - *Deutsche Bank - Analyst*

That's helpful. Then thinking about the new facilities coming online, Fox Cities in the second quarter and then Mexico further out in the fiscal year. I know that it helps you in terms of the consolidation on the expense side, but does that -- do you have an impact to depreciation, or is the depreciation already being recognized? How should we think about costs, at least in the COGS line, and maybe the SG&A line as those facilities come on?

Ginger Jones - *Plexus Corp - SVP & CFO*

Yes, we will see more amortization and depreciation in the second -- primarily in the second half of FY14. So we're currently at about $12 million a quarter and that could be -- by Q3, that could be about $13 million a quarter. And that's a combination of the Neenah facility and beginning to amortize the Guadalajara facility a as well.

Sherri Scribner - *Deutsche Bank - Analyst*

Okay. Thank you.

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

Thank you.

Operator

And we have Mark Delaney from Goldman Sachs online with a question. Please go ahead.

Mark Delaney - *Goldman Sachs - Analyst*

Great. Thanks very much for taking the question. First, I was just hoping to better understand your view of FY14 revenue growth in total. I understand there's some, maybe some incremental weakness in the Networking market.

It sounded like things may have picked up in some of the Industrial end markets. And so putting that all together, do you still think you can grow your FY14 revenues slightly year over year?

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

Well, that's what we expect to do right now. I mean, there's a few little maybe pieces to consider here. If you contemplate Q1 of FY13, we had $66 million of Juniper revenue in that quarter.

And we're right about on top of the same revenue run rate today as we were in that year-ago quarter. So there's substantial evidence that the new business wins that we managed to close on last year had a positive effect.

As we look through our various market sectors for the full year, all of our market sectors, with the exception of Networking/Communications, are growing in the mid-teens or so range. And with respect to Networking and Communications, I believe we've, on a full year basis, replaced about 50% of the Juniper revenue, which was for all of last year about $282 million.

So unless something falls apart on us here, it looks certainly that we're going to live up to our kind of modest single digit full year growth. But of course, the annualized revenue in that final quarter then would suggest that we'd have pretty strong growth in FY15, particularly if we continue to show new business wins at a strong performance here as we continue to move through FY14.

Mark Delaney - *Goldman Sachs - Analyst*

That's helpful. Thank you, Dean. And then for my follow-up question. Ginger, I'm hoping you can help us bridge from the operating margins of 4.5% for fiscal 2Q to the 5% you think you can get to exiting FY14. Should we think of that as a linear progression as revenue comes on, you can leverage the fixed cost? Or are there step function things we need to be thinking about for you to execute upon in order to get to the 5%?

Ginger Jones - *Plexus Corp - SVP & CFO*

Well, we think that improvement will happen over the second half of FY14, and it's driven both by the initiatives, and essentially all by the initiatives that Todd talked about. A portion of that will be more naturally back-half loaded, which is the benefit from the consolidation of the facilities, because as we've discussed that's not even going to be complete until the end of this quarter. But I would think there'll be a steady progression of operating margin from fiscal Q2 to our target, which we've committed to hitting as we exit FY14.

Mark Delaney - *Goldman Sachs - Analyst*

Thank you very much.

Operator

And we have Shawn Harrison from Longbow Research online with a question. Please go ahead.

Shawn Harrison - *Longbow Research - Analyst*

Hi. I'm going to ask you to look way into the future. Let's say we're into fiscal -- we get through 2014 and we get into a more normalized environment in 2015. Where do you think, with the new capacity coming online, offset by the facility consolidations, gross margins peak out at on a normalized basis?

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

It's hard to think too far forward, to be honest with you. (Laughter) The battle's been fought over the last couple years. But, and some of this depends upon the rate of acceleration in overall global-wide economic growth, of course too, because there's a tremendous focus in low growth or no growth environments by customers on cost, and that shifts toward capacity and execution and issues of quality, et cetera in periods of high growth. So you have that as a backdrop.

But I would just say that the real issue here with gross margins for us in some respects is customer-limited. I mean, when you start getting up in that high-9%s to 10% range, it just gets an enormous amount of attention from customers, and they all expect that you're getting all that gross margin excess from them. So we view it as there's an upper bound there that's really around pricing and sort of the expectations of customers that you just can't exceed.

Shawn Harrison - *Longbow Research - Analyst*

I guess maybe the other way I was thinking about it is if you get to the target model exiting 2014 and into 2015, it looks as if you wouldn't have to deliver a high 10%s or a 10% gross margin to achieve this goal. I'm just wondering if that's maybe more the steady state operating environment, kind of a mid- to upper 9%s?

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

I think that's fair. And I think that's the way we're thinking about it, in part because it's just -- we're getting the scale now where we can operate with a more efficient SG&A structure. And frankly it creates a little less attention on pricing in the marketplace as well.

Shawn Harrison - *Longbow Research - Analyst*

Okay.

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

In that kind of mid- to upper 9%s kind of range.

Shawn Harrison - *Longbow Research - Analyst*

Got you. And then Todd, nice expansion on the funnel this quarter. Do you think that's maybe the big expansion we'll see for the year, maybe kind of the factors that really helped it this quarter? And what are the opportunities to further expand it further, because it doesn't, at least based upon the program win rate you need, look like you need a much bigger funnel than $2.3 billion.

Todd Kelsey - *Plexus Corp - EVP & COO*

I think you're accurate there. I think we feel really good about the funnel where it's at. Obviously, we'd always like a little bit more in the funnel.

I think this is a very healthy, very realistic level when we get into the $2 billion to $2.5 billion range. It's an area where we feel very comfortable, given the scale we're at right now.

Shawn Harrison - *Longbow Research - Analyst*

Was there one factor that drove the uptick this quarter, or was it just more of a timing issue?

Todd Kelsey - *Plexus Corp - EVP & COO*

No, I wouldn't say there is one factor. I think it's just really the teams getting after it with activity and really surfacing some larger opportunities, I guess would be the best way to look at it. And the number of opportunities are about the same, but we're seeing some pretty good-sized ones right now, too.

Shawn Harrison - *Longbow Research - Analyst*

Got you. Okay, thanks a lot, Todd.

Operator

And we have Brian Alexander from Raymond James online with a question. Please go ahead.

Brian Alexander - *Raymond James & Associates - Analyst*

Yes, just a couple clarifications, Ginger. On the 5% operating margin, what level of revenue, what's the minimum revenue you think you need to be at to exit the year to hit that 5%?

And then assuming you do get there, how do you think about expanding operating margins beyond 5% over the next couple years with all the productivity initiatives that Todd outlined that you still have a lot to benefit from? Do you expect to eclipse that, or would you basically reinvest those benefits into growing the business?

Ginger Jones - *Plexus Corp - SVP & CFO*

I'll start with the revenue number. We haven't tied the operating margin to a specific revenue number, but we've been clear about our expectations.

Given the forecast today, we think we're going to grow sequentially through the balance of 2014, and we think overall that will be low single digits growth, given our current forecast. So with that, we think we can deliver the 5% operating margin.

Turning to this idea about longer term is there opportunity for upside on the 5% operating margin, this is a really difficult business and Plexus delivers industry-leading operating margins as it is, and we work really hard to deliver them. So we're focused on achieving that 5% really consistently and continuing to grow the business in the mid-teens, and we think that's the way to deliver the most value to shareholders.

And that continued focus on growth and delivering the margins consistently means we will invest in the business over time, and we think that's the right focus. So honestly, there may be quarters where margin pops above 5% briefly based on customer mix, but we don't expect that that's going to be our focus in the long run. And frankly, we're very proud of delivering the margins we do, and we think 5% is a great achievement and we're going to be happy when we deliver that at the end of the fiscal year.

Brian Alexander - *Raymond James & Associates - Analyst*

Great. Then Dean, going back to your comments on the Networking/Communications business, I think you referred to the guidance as kind of a one-quarter reset, but you're seeing pretty broad-based weakness. Maybe just help us understand why you think you're seeing that. What caused the reset, and why you're confident that it's temporary and that we return to sequential growth thereafter?

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

Well, I wish I was completely confident it was temporary, because it's been quite a volatile sector here over the last, quite frankly, couple of years. But as it looks right now, I mean, we're seeing a decent recovery here in Q3 and into Q4.

Part of that is better expectations by our customers for what's going to happen in the back half of the year, and I think from my understanding in reading what our sector team is saying in regards to capital spend by the carriers and others, I would suggest that the forecast that we're getting from these customers seems at least believable here in the back half. The other portion of this that gives us a little bit of a hedge is that we've won some new business as well. So we'll get the benefit from the ramping up of some of those new programs here as we come of through the back half of the year as well.

Brian Alexander - *Raymond James & Associates - Analyst*

Final one. Of the $98 million of new wins for the Americas, how much of that was for Guadalajara and how much of that capacity, I think you said 265,000 square feet, how much of that do you ultimately expect to be for net new business versus transfers from other sites?

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

Well, let's let Todd take it. The building is not finished yet so it's hard to win new business into an empty -- into a building that's under construction, frankly. We intend to do a warm start there with some transfer business. I'll let Todd --

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Todd Kelsey - *Plexus Corp - EVP & COO*

Yes. I guess first of all, I'd say as Dean had alluded to here Brian, we're transitioning or transferring some business into that site, and that's already identified and planned. That will get the site off to a really nice start.

We also did, of the $98 million in the Americas, there actually is a Guadalajara win in there despite the fact we don't have a facility yet.

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

Well, then I learned something.

Todd Kelsey - *Plexus Corp - EVP & COO*

We're launching that into a different facility in the Americas, and we will transfer that business as well to it. So in essence we've got some new commitments. What I would say about Guadalajara is the interest has been very good, and the funnel is surprisingly good for a site that really isn't launched or doesn't exist as of yet, other than in a shell form.

Brian Alexander - *Raymond James & Associates - Analyst*

Great. Okay. Thank you very much.

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

Thank you.

Operator

And our next question comes from Tom Schwartzman from Sidoti & Company. Please go ahead.

Todd Schwartzman - *Sidoti & Company - Analyst*

Hi. Thanks, and good afternoon. Question regarding the consolidations as you complete the respective consolidations. Could you quantify the incremental impact on those remaining pieces, either on a quarterly or annual basis going forward?

Ginger Jones - *Plexus Corp - SVP & CFO*

Todd, this is Ginger. I want to make sure I understand your question. The quarterly impact on margins from that consolidation?

Todd Schwartzman - *Sidoti & Company - Analyst*

On SG&A, yes, Ginger. When all is said and done and you've got Guadalajara and the remaining third, I think the one-third piece of Fox Cities, have you put out any numbers in terms of dollars, dollar savings?

Ginger Jones - *Plexus Corp - SVP & CFO*

We have. And so -- it's been a while since we refreshed this. When we did the analysis last summer, there were going to be one-time charges of approximately $3 million to $4 million to do the consolidation, and then an annual benefit from efficiencies and better cost structures of around $4 million to $5 million annually from the new operating structure.

So the costs would pay themselves back in about a year or so. So that's, at a high level, the benefit we can see once we're fully consolidated.

Todd Schwartzman - *Sidoti & Company - Analyst*

So no change to those expected efficiencies since your initial forecast, correct?

Ginger Jones - *Plexus Corp - SVP & CFO*

No.

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

No.

Todd Schwartzman - *Sidoti & Company - Analyst*

Okay. Also, I wondered if you could, regarding the Networking customers, if you could speak to the magnitude of the reset expectations on the part of those? I think you said 14 of the top 15, I just want to get a feel for what the variance is among them in terms of the deltas, if you will?

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

Do you know that number off the top, Todd, versus (inaudible)?

Todd Kelsey - *Plexus Corp - EVP & COO*

Yes, well, I can -- so basically, we talked about 14 of 15, and it's really down sequentially. I would say of those, probably half of them actually lowered forecasts. So the other half was expected.

What's interesting, though, is the one that's up is way up. I mean, it's up very substantially, and that really just is one of our customers that's winning in a big way in the marketplace.

And I think when you look at the other customers, it's really a bit of a mixed bag as to what's going on. Some of it's new program wins where they're really getting to a reasonable inventory position, is just pausing a bit.

Others are customers that are really having some challenges in the marketplace, and are really going down because of that. So it's just mixed as to why, but really it's half that have gone down.

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

I could just give you another piece of data here. So when we considered what the Q2 forecast was a quarter ago, so this would have been when we were doing the call last quarter, the Q2 forecast came down by, for that sector alone, came down about 10%. So that would have been in the neighborhood of $16 million or so from what we would have expected to have happen a whole quarter ago, looking into Q2.

Todd Schwartzman - *Sidoti & Company - Analyst*

That is helpful. Thank you very much.

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

You're welcome.

Operator

And this concludes the question and answer --

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

The good news is we've made up for it elsewhere, right?

Todd Kelsey - *Plexus Corp - EVP & COO*

Yes.

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

I'm sorry. Go ahead.

Operator

This concludes the question-and-answer session. Thank you, ladies and gentlemen. This also concludes today's conference. Thank you for participating. And you may now disconnect.

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

Thank you.

Ginger Jones - *Plexus Corp - SVP & CFO*

Thank you.
