

THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

PLXS - Q3 2016 Plexus Corp Earnings Call

EVENT DATE/TIME: JULY 21, 2016 / 12:30PM GMT

OVERVIEW:

Co. reported 3Q16 revenues of \$668m, adjusted operating profit of \$32.7m and non-GAAP diluted EPS of \$0.82. Expects 4Q16 revenues to be \$655-685m and non-GAAP diluted EPS to be \$0.76-0.84.



CORPORATE PARTICIPANTS

Susan Hanson *Plexus Corporation - Director of Communications & Brand Management*

Dean Foate *Plexus Corporation - President & CEO*

Todd Kelsey *Plexus Corporation - EVP & COO*

Pat Jermain *Plexus Corporation - SVP & CFO*

Steve Frisch *Plexus Corporation - EVP & Chief Customer Officer*

CONFERENCE CALL PARTICIPANTS

Matt Sheerin *Stifel Nicolaus - Analyst*

Sherri Scribner *Deutsche Bank - Analyst*

Steven Fox *Cross Research - Analyst*

Shawn Harrison *Longbow Research - Analyst*

Mitch Steves *RBC Capital Markets - Analyst*

Jim Suva *Citigroup - Analyst*

Herve Francois *B. Riley & Company - Analyst*

Sean Hannan *Needham & Company - Analyst*

PRESENTATION

Operator

Good morning, and welcome to the Plexus Corp conference call regarding its fiscal third-quarter 2016 earnings announcement. My name is Sylvia, and I will be the operator for today's call.

(Operator Instructions)

I will now like to turn the call over to Ms. Susan Hanson, Plexus Director of Communications and Brand Management. Susan?

Susan Hanson - *Plexus Corporation - Director of Communications & Brand Management*

Thank you, Sylvia. Good morning, and thank you for joining us today.

Some of the statements made and information provided during our call today will be forward-looking statements, as they will not be limited to historical facts. The words believe, expect, intend, plan, anticipate and similar terms often identify 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 factors that could cause actual results to differ materially from those discussed, please refer to the Company's periodic SEC filings, particularly the risk factors in our Form 10-K filing for the fiscal year ended October 3, 2015, and the Safe Harbor and Fair Disclosure statement in yesterday's press release.

Plexus provides non-GAAP supplemental information, such as ROIC, economic return and free cash flow, because those measures are used for internal management goals and decision-making, and because they provide additional insight into financial performance. In addition, management uses these and other non-GAAP measures, such as adjusted net income and adjusted operating margin, to provide a better understanding of core performance for purposes of period-to-period comparisons. 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 the call this morning to access the live webcast and supporting materials at Plexus's website, at www.plexus.com, clicking on Investor Relations at the top of that page, and then Event Calendar.

Joining me today are Dean Foate, Chairman, President and Chief Executive Officer; Todd Kelsey, Executive Vice President and Chief Operating Officer; Pat Jermain, Senior Vice President and Chief Financial Officer; and Steve Frisch, Executive Vice President and Chief Customer Officer. Consistent with prior earnings calls, Dean will provide summary comments before turning the call over to Todd and Pat for further details. Let me now turn the call over to Dean Foate. Dean?

Dean Foate - *Plexus Corporation - President & CEO*

Thank you, Susan, and good morning, everyone. Yesterday after the close of the market, we reported results for our fiscal third quarter of 2016. Revenue was \$668 million, at the high end of our guidance range. Our non-GAAP diluted EPS result was \$0.82, above our guidance range due to strong operating performance. Overall, revenue grew approximately 8% sequentially and played out largely as expected across our sectors. Notably, new program ramps drove strong sequential growth in our industrial/commercial sector, and to some extent, in our healthcare/life sciences sector.

Overall, I am pleased with our performance this quarter, and I am especially gratified that we delivered operating margins solidly in our target range of 4.7% to 5% one quarter ahead of earlier expectations. The stronger margin performance, in combination with better balance sheet management, resulted in ROIC improving to 13%, representing 200 basis points of economic return. Consequently, free cash flow was above expectations for the quarter. Shifting our focus to top-line growth, new business wins were again healthy this quarter, providing optimism for accelerating growth in the coming fiscal year.

I will now turn the call over to Todd.

Todd Kelsey - *Plexus Corporation - EVP & COO*

Thank you, Dean. Good morning, everyone. Advancing to our fiscal fourth-quarter guidance on slide 4. After exceptionally strong sequential growth in our fiscal third quarter, we expect revenue growth to moderate in the fiscal fourth quarter. We're guiding fiscal fourth-quarter revenue in the range of \$655 million to \$685 million. As new program ramps in our industrial/commercial and defense/security/aerospace sectors offset anticipated near-term end-market weakness in our network and communication sector.

We expect our operating margin to be near the high end of our 4.7% to 5% target range for the second consecutive quarter, as a result of the excellent work by our teams in delivering our cost reduction and productivity improvement initiatives. With our sustained operating performance and the expected revenue level, we are guiding non-GAAP diluted EPS in the range of \$0.76 to \$0.84. This includes \$0.11 of stock-based compensation expense.

Next, I would like to turn to operating performance on slide 5. Our fiscal third-quarter revenue, which was at the high end our guidance range at \$668 million, was up 8% sequentially from Q2. We benefited from modest strengthening within the quarter across all our sectors, with the exception of defense/security/aerospace.

Our operating margin finished near the top end of our target range at 4.9%, as our three manufacturing regions continued to deliver meaningful results associated with our cost reduction and productivity improvement initiatives. As a result of the strong revenue and operating margin in Q3, we delivered record-adjusted operating profit of \$32.7 million. As we look forward to Q4, we expect we will continue this level of operating performance.

Please advance to slide 6 for additional insight into our recent operating margin performance. As discussed on previous calls, at the beginning of our fiscal first quarter of 2016, we put in place plans to improve operating profit \$6 million to \$8 million per quarter by our fiscal third quarter of 2016, resulting in a 90- to 120-basis point improvement to operating margin.

We finished our fiscal third quarter at the high end of our target range, with 120 basis points of total improvement. When including the 20-basis point improvement resulting from the successful Guadalajara ramp, we exited the quarter at 4.9% operating margin.

Looking ahead to fiscal fourth quarter of 2016, we will complete our near-term cost reduction and productivity improvement initiatives with the closure of the Fremont facility. The end result of these combined efforts will be a 140-basis point improvement to operating margin, positioning us to maintain performance in our 4.7% to 5% target operating margin range.

Looking to the future, we anticipate additional positive margin benefit as result of achieving sustained growth in the EMEA region. We believe we are well-positioned to fund our future growth investments while achieving our target operating margin range.

Please advance to slide 7 for insight into the performance of our market sectors during the fiscal third-quarter 2016, as well as our expectations for the fiscal fourth quarter. Our networking/communication sector was down 1% in Q3, which was in line with our expectations of down low single-digits. Three of our top customers outperformed prior forecasts. The remainder of the sector was mixed to expectations.

Looking to Q4, we expect networking/communications revenue to be down in the low double-digit percentage point range due to near-term end-market weakness and headwinds associated with the previously announced program completion. Demand within the sector means volatile.

Our healthcare/life sciences sector was up 9% sequentially in Q3, which was better than our expectations of a mid-single-digit increase. Overall demand exceeded expectations with 12 of the top 15 customers, with one customer stronger than forecast to support a program transition to another Plexus site.

Looking ahead to fiscal fourth quarter, we anticipate revenue in our healthcare/life sciences sector to be down in the low single-digits relative to Q3. We see end-market weakness with two larger customers, an unfavorable product mix shift with another significant customer, and a more normalized run rate with the program transition mentioned earlier. These impacts are somewhat offset by new program ramps.

Our industrial/commercial sector was up 20% sequentially in our fiscal third quarter, slightly above our expectations of up high-teens. The strong results were primarily driven by new program ramps with a major customer. As we look ahead to Q4, we currently anticipate that our industrial/commercial sector will be up in the high single-digit percentage point range on the strength of new program wins with several customers in the sector.

Our defense/security/aerospace sector was flat in Q3, a result that was largely in line with expectations, as demand softened slightly within the quarter. We currently expect Q4 to be up in the mid single-digits sequentially, mainly due to end-market strength of a security customer and new program ramps.

Next, to new business wins on slide 8. During the fiscal third quarter, we won 46 new programs in our Manufacturing Solutions Group that we anticipate will generate \$194 million in annualized revenue when fully ramped in production. The result is well-above our goal, and our strongest since the second quarter of FY15. The wins for our Americas and APAC region were robust at \$113 million and \$75 million, respectively. Our wins result in our EMEA region was below expectations, and our team is focused on improvement actions.

Please advance to slide 9 for further insight into the wins performance of our market sectors. In the fiscal third quarter, our manufacturing solutions wins were led by the industrial/commercial sector. The wins included significant business expansions with a top customer, and a new division of an existing customer.

Our healthcare/life sciences sector also won a significant program with a new customer, and further expanded our relationship with one of our top customers. The healthcare/life sciences and industrial/commercial sectors continued their trend of wins momentum well-above our 25% goal, supporting our strategy to further shift our business mix and deliver a healthier differentiated portfolio.



Now advancing to manufacturing wins momentum on slide 10. Our trailing four-quarter manufacturing wins, as shown by the dark blue bars, is at \$714 million. This performance results in a wins momentum of 28%, above our target of 25%, and a 200-basis point improvement from last quarter.

Our engineering solutions wins totaled approximately \$27 million in the fiscal third quarter, a strong result that was in line with our expectations. The funnel for engineering solutions continues to be robust, and we expect another strong quarter of wins in the fiscal fourth quarter. Our backlog in our higher-margin engineering solutions organization remains quite healthy.

Please advance to slide 11. Our manufacturing funnel remains robust, at \$2.3 billion of qualified opportunities. The sector breakdown of our funnel supports the revenue goals of our differentiated portfolio.

I'll now turn the call to Pat for a detailed review of our financial performance. Pat?

Pat Jermain - Plexus Corporation - SVP & CFO

Thank you, Todd, and good morning, everyone. Our fiscal third-quarter results are summarized on slide 12.

Revenue of \$668 million was at the high end of our guidance, due to better performance from three of our market sectors. Gross margin of 9.4% was within our guidance, and 75 basis points above the fiscal second quarter. Our continuing efforts to manage costs and improve productivity while increasing our top line contributed to the gross margin expansion.

Selling and administrative expense of approximately \$30 million was at the top end our guidance, primarily due to higher variable incentive compensation. For the third quarter, SG&A as a percentage of revenue was approximately 4.5%, which was consistent with the fiscal second quarter.

We were pleased to achieve our target operating margin range this quarter. Before restructuring, our adjusted operating margin of 4.9% was at the top end of our guidance and included approximately 55 basis points of stock-based compensation.

We experienced minimal impact from foreign exchange volatility, as we continued to hedge significant balance sheet exposures. The devaluation of the British pound had no significant impact on our fiscal third quarter, as we utilize an average exchange rate to translate income statement results. During the fiscal fourth quarter, we anticipate that the currency devaluation will have a minor impact overall, as less than 3% of Plexus revenue is generated in the UK.

Diluted EPS of \$0.76 includes a \$0.06 per share detriment as a result of after-tax restructuring charges of \$1.8 million related primarily to the closure of our Fremont, California facility. Excluding restructuring charges, non-GAAP EPS of \$0.82 exceeded our guidance of \$0.73 to \$0.81.

Turning now to the balance sheet on slide 13. Return on invested capital was 13% for the fiscal third quarter, a 140-basis point improvement from the prior quarter, and 200 basis points above our FY16 weighted average cost of capital of 11%. Our stronger margin performance, combined with disciplined invested capital management, drove the improvement in our return on invested capital performance.

During the quarter, we purchased approximately 170,000 of our shares for \$7.2 million, at a weighted average price of \$42.13 per share. The shares were purchased under our \$30 million stock repurchase program. We have approximately \$7 million remaining under the authorization, which we plan to use to repurchase shares on a relatively consistent basis over the fiscal fourth quarter.

During the quarter, our Board of Directors authorized a \$150 million multi-year stock repurchase program, which reflects our continued commitment to maximize shareholder value by returning excess cash to shareholders. This program will commence in FY17, and repurchases will be dependent on market conditions.

As discussed in the press release, on July 5, we amended our senior unsecured credit agreement to take advantage of favorable pricing. As a result of the amendment, the credit facility was expanded to \$300 million, with the ability to increase it by an additional \$200 million. The amended



facility provides us with ample borrowing capacity and flexibility in anticipation of future growth, and in part, to fund the previously announced share repurchase program. In addition to the expansion, we extended the termination date of the credit facility from May 2019 to July 2021.

During the quarter, we generated \$31 million in cash from operations and spent \$7 million on capital expenditures, resulting in free cash flow of \$24 million. This result exceeded our \$5 million to \$15 million free cash flow guidance for the fiscal third quarter. Lower capital expenditures and continued emphasis on working capital management contributed to the improvements in free cash flow. The cash cycle at the end of the third quarter was 63 days, a sequential improvement of three days, and favorable to the midpoint of our guidance.

Please turn to slide 14 for details on our cash cycle. Days in inventory were sequentially down four days, driven by the higher revenue for the fiscal third quarter. Inventory increased approximately \$12 million or 2% compared to the 8% revenue increase. Sequentially, days in receivables were up three days, due to a higher level of shipments at the end of our quarter and a mix change of customers with less favorable payment terms. Sequentially payable days were consistent, while customer deposit days increased two days, as we secured \$17 million in additional deposits.

As Todd has already provided the revenue and EPS guidance for the fiscal fourth quarter, I will now turn to some additional details, which are summarized on slide 15. We expect additional restructuring charges of approximately \$0.5 million to \$1 million in the fiscal fourth quarter, primarily related to our Fremont, California facility. These restructuring charges are excluded from the guidance discussed today. We have also excluded from our guidance any charges related to special items which are not known or reasonably quantifiable at this time.

We expect all restructuring activities to be completed in FY16. Total restructuring charges are expected to be in the range of \$5 million to \$6 million for the year.

Gross margin is expected to be in the range of 9.4% to 9.7%. The midpoint of this guidance suggests a sequential increase of 20 basis points. Driven primarily by sequential increase in variable incentive compensation expense, we expect SG&A dollars in the fiscal fourth quarter to be slightly higher, in the range of \$30 million to \$31 million.

Fiscal fourth-quarter adjusted operating margin is expected to be in the range of 4.8% to 5.1%, which includes approximately 55 basis points of stock-based compensation expense. The midpoint of this guidance suggests a slight sequential improvement to our margin, and positions us at the top end of our target operating margin range.

A few other notes: depreciation expense for the fiscal fourth quarter is expected to be approximately \$12 million, consistent with the fiscal third quarter. Before restructuring charges and other special items, we estimate an effective tax rate of 9% to 11% for the fiscal fourth quarter, and 10% to 12% for the full year. This slightly higher tax rate forecasted for the fiscal fourth quarter compared to the third quarter is largely attributed to changes in the geographic distribution of earnings.

Our expectation for the balance sheet is a sequential increase in working capital dollars. Cash cycle days are expected to be in the range of 64 to 68 days for the fiscal fourth quarter, suggesting a sequential increase of three days at the midpoint of this guidance. The increase in working capital dollars and cash cycle days is primarily related to an increase in accounts receivable, due to a continued mix change to customers with less favorable payment terms.

We expect free cash flow in the range of \$5 million to \$25 million for the fiscal fourth quarter. As a result, we are increasing our FY16 expectation of free cash flow by \$10 million at the midpoint. Our new range is \$100 million to \$120 million. FY16 capital spending is anticipated to be approximately \$40 million, which will support new program ramps and productivity improvements.

With that, Sylvia, I will now open the call for questions. We ask that you please limit yourself to one question and one follow-up. Sylvia?



QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Matt Sheerin, Stifel.

Matt Sheerin - *Stifel Nicolaus - Analyst*

Just a question regarding the network and communications business. It sounds like rather a soft outlook there. And it also seems like it's going to -- has a positive effect on your overall margins due to mix. But if that sector continues to weaken on lower volumes, what should we think about the negative leverage within that business, offset by positive mix because revenue in the other sectors, just by default, are higher as a percentage?

Todd Kelsey - *Plexus Corporation - EVP & COO*

Sure. Matt, this is Todd. I will take this question.

So first of all, with respect to networking/communications business, we have a soft outlook in Q4. And in this case, we are seeing seven of our top 10 customers weakening. We also have the impact of the program disengagement that we talked about in the past, as a headwind. But as we look to Q1 and really the balance of FY17, we see the networking/communications sector recovering.

So we would expect at this point Q1 to look much like Q3 does, from a revenue standpoint. And we do see growth within that sector in FY17, although not necessarily at the rate of our other sectors. So I think you'll continue to see it, from a percentage of our portfolio standpoint, to be at or trend slightly lower than the other sectors, as we continue to grow the other sectors. But we do expect growth within that sector, and we view this as really a short-term issue.

Matt Sheerin - *Stifel Nicolaus - Analyst*

Okay. And then after de-selecting some of the lower-margin or less desirable programs, should we see margins within the net and communications business improve through next year as volumes start to come back?

Todd Kelsey - *Plexus Corporation - EVP & COO*

Well, I think we look at it overall as a portfolio across Plexus. And again, we are really driving for this 4.7% to 5% operating margin on really a consistent quarterly basis. So that's the way we look at running the business. Certainly some of the things that we did in networking/communications helped that profile and helped us get to that range where we are at in Q4, and in Q3, as well.

But as we look forward, there's other factors and pressures that come into play that drive the operating margin. Such as inflationary pressures within our business itself, customers and their cost-down pressures and cost pressures, as well as the need to really focus on growth and invest in growth investments. So we believe that 4.7% to 5% is a healthy place to be, a place that we expect to stay. But we think we are positioned well to stay in that range.

Matt Sheerin - *Stifel Nicolaus - Analyst*

Okay, got it. Thanks very much.



Operator

Sherri Scribner, Deutsche Bank.

Sherri Scribner - *Deutsche Bank - Analyst*

Thanks for that detail on the FX impact from the pound. Can you give us some sense of what you're seeing in Europe? I know you guys don't have a ton of exposure, but it seemed like some of your wins were a little weaker in the EMEA region, and maybe some detail on that would be helpful.

Todd Kelsey - *Plexus Corporation - EVP & COO*

Yes, so maybe I will let Pat give a little more color around Europe and the impact of Brexit and such as that, and then I will talk about more wins and growth in the EMEA region.

Pat Jermain - *Plexus Corporation - SVP & CFO*

Yes, I will start. So Sherri, as I mentioned, Q3 we didn't see much of an impact because we use an average exchange rate. But for fiscal fourth quarter, if the exchange rate continues at the level it is at, the British pound, we would expect a couple million dollar impact, just simply from translating results from the UK into US dollars.

Now, that is already factored into our guidance that we provided today. So that's the piece just from translation. We don't see much of an impact from the Romania business. That is a euro-functional currency, so just simply translating those results would not result in a significant impact.

From a demand standpoint, we are seeing some softness from our UK customers. We are still trying to work through whether that's Brexit-related or just softer end-market demand. But that is probably a couple million dollars as well. So overall, the impact at this point we are not seeing as significant. But I think wait and see how this continues to play out.

Todd Kelsey - *Plexus Corporation - EVP & COO*

So that's from a standpoint of wins in the revenue trajectory within the region. So from a standpoint of the wins, we had what we felt was an abnormally low quarter in Q3 in the EMEA region. And we would expect that to recover as we move forward in Q4 and beyond. So we don't view it as a long-term trend within that region.

And as we look at the revenue growth, and if you look at the wins momentum within that region, it is strong. And you can probably interpolate and do the math, and see that we are expecting roughly mid-20% growth within the region in our FY16. And as we look to FY17, we would expect something in that region or perhaps even better.

Sherri Scribner - *Deutsche Bank - Analyst*

Okay, that's helpful. And then just looking at operating margin, you have done a very good job of improving that and getting back into the target range, at the high end of the target range. Should we assume that you are in that target range for every quarter in FY17? Because I look at the full year of straight numbers, it implies that you are pretty healthfully in that range for 2017. Thanks.

Pat Jermain - Plexus Corporation - SVP & CFO

Yes, I think, Sherri, for most of the quarters, we will be in that range. The one we typically have challenges with would be our March quarter, where we have the compensation, the merit increases and the US payroll tax reset. And that's a quarter where I could see us dipping below that 4.7% low end of our target range.

Sherri Scribner - Deutsche Bank - Analyst

Thank you.

Pat Jermain - Plexus Corporation - SVP & CFO

Sure.

Operator

Steven Fox, Cross Research.

Steven Fox - Cross Research - Analyst

First question just on the industrial/commercial sales performance in the quarter and the outlook. The ramp into September, I guess there's a lot of Plexus-specific stuff going on. I was curious if there's any other seasonal factors that we should think of? And given all of the other markets, if there's anything else you would call out within industrial/commercial that's affecting that guidance? And then hints you can provide in terms of what kind of seasonality or new program ramps we should think affecting the December quarter would be helpful.

Steve Frisch - Plexus Corporation - EVP & Chief Customer Officer

Steven, this is Steve Frisch. I've got a little bit of a cold this morning, so hopefully you can hear me.

Steven Fox - Cross Research - Analyst

Yes.

Steve Frisch - Plexus Corporation - EVP & Chief Customer Officer

In regards to the new program ramps, it really is -- the strength is in the new program ramps. We were very successful at converting opportunities, and they have been ramping nicely. Todd talked about the one that we have a continuation with a current customer. We have also talked that we have added a new division with an existing customer, and we expect those to continue to ramp in 2017.

In regards to the seasonality, the semiconductor market is flat to where it has been. We were expecting to see some growth, more growth in that as we entered the back half of 2016. It has not picked up to the level that we would have anticipated, but it has not gone down either. A very similar story with oil and gas. So what you are seeing for us is really growth through new program ramps, and not a lot effect of seasonality.



Steven Fox - *Cross Research - Analyst*

And was this an especially big quarter, where the revenues are coming from the new programs, or should we see more of that in the December quarter?

Todd Kelsey - *Plexus Corporation - EVP & COO*

There's a little bit of a spike as we ramp for the first time. But we would expect the levels to not dip so appreciably as we go through the year.

Steven Fox - *Cross Research - Analyst*

Thanks. And then just real quick on the new program ramps, it looks -- from the margins, it appears like everything is ramping efficiently. I am just wondering how you would grade yourselves out on some of these ramps, given some of the big areas you said you've entered, with new divisions, et cetera. Is there anything that's changing the model that has made this more predictable for you? Or have there been hiccups that you have been able to overcome? Thanks.

Todd Kelsey - *Plexus Corporation - EVP & COO*

I would say overall we have been efficient in the new program ramps. There's always challenges that occur during a new program ramp. Because it is new, it's often a new customer, it is always a new program. It can be issues related around the design, it can be issues related around process, or what have you. So there's always challenges to overcome.

But one of our key focuses has been on putting in the proper investments ahead of the ramp within our site. So I think that has helped us to be more consistent and more predictable within those ramps, and we would expect to be able to continue that as we move forward.

Dean Foate - *Plexus Corporation - President & CEO*

I would just add, I think Todd is being somewhat modest. It has been an enormous, I think, cultural shift in the organization, to really get back to performing for our customers. And underpinning that is a heavy focus on operational excellence in standard work across the organization, getting rid of variation. And we have made an enormous move in that direction, which has really helped our performance to our customers, but also made the manufacturing floor much more predictable, less heroics to get product out the door at very high-quality levels.

Frankly, there is quite a bit more work to do to get us up to a point where we would say that we are in really excellent shape. And those that would drive these initiatives know that this is the kind of work that is never done. There is always opportunity for improvement. But we've got a significant shift going on in terms of how we do work across our manufacturing platform.

Steven Fox - *Cross Research - Analyst*

That's very helpful. Thanks very much.

Dean Foate - *Plexus Corporation - President & CEO*

Thank you.

Operator

Shawn Harrison, Longbow Research.

Shawn Harrison - Longbow Research - Analyst

I would like to see if we could dig in a little bit more to the networking comment. It sounds from the comment that this is either a short-term demand disruption or an inventory correction. Maybe if you could parse it between either? And then the better view on 2017 -- is that because the demand gets better, or is that because some of the new program wins you have won over the past few quarters ramp and then engage with a still soft-end market environment?

Todd Kelsey - Plexus Corporation - EVP & COO

Yes, so Shawn, demand versus inventory -- I would call it a demand issue. When we look further out, I think we see some level of recovery in the demand, but we're also benefiting from new program ramps, as well. The other advantage we have as we go forward within networking/communications is, we don't have the headwind of the large program disengagement that we talked about, to deal with any further.

Shawn Harrison - Longbow Research - Analyst

On that topic, Todd, will both the program disengagements be complete exiting here in the fiscal year?

Todd Kelsey - Plexus Corporation - EVP & COO

Yes. So we talked about the two different programs, the one being the industrial/commercial program. That is complete already, as we speak. And the networking/communications program, you can consider that complete after this quarter. Just taking a quick look at the headwinds to make sure I get this right as well, too. So we have about a \$6 million headwind impacting our current quarter, our Q4, and then really that trails down after that point.

Shawn Harrison - Longbow Research - Analyst

Okay. And then just finally as a quick follow-up, going into FY17, do you have any additional thoughts in terms of how they're going to deploy the new, larger buyback? I know at the Analyst Day, I think you said you would be -- I don't know if the right term was selective or opportunistic. So right now we maybe model something of \$50 million over the next three years, or is there potential to front-load it?

Todd Kelsey - Plexus Corporation - EVP & COO

Yes, I don't think there's much potential to front-load it, Shawn. What we are going through right now is our planning process, both our annual planning process and our long-range plan. And what I look at is our intrinsic value. I look at where we are trading our trading multiples, and make decisions based on that. But at least we want to be covering our equity dilution, and then setting up a strategy that is consistent and that is the strategy we have had in the past. Just add a little larger amount going forward.

Shawn Harrison - Longbow Research - Analyst

Okay, perfect. Thanks so much, and congratulations on the results.

Dean Foate - Plexus Corporation - President & CEO

Thank you.

Operator

Mitch Steves, RBC Capital Markets.

Mitch Steves - RBC Capital Markets - Analyst

Just a first quick one. If you were to look at the midpoint of the guide, and call it [675] or so, somewhere around there, would you have two 10% customers like you had last year, or is that expected to decline at the midpoint?

Todd Kelsey - Plexus Corporation - EVP & COO

I would say that, well, first of all, we won't announce or talk about 10% customers until we release our 10-K after the fiscal fourth quarter. What I can say is that if you looked at the -- we announced two, of course, last year. From a percentage standpoint, they're staying relatively consistent.

Mitch Steves - RBC Capital Markets - Analyst

Got it. So pretty much the same as it was last year, on a rough basis. Okay. And then secondly, if I look at the industrial side, it looks like that's ramping up pretty materially. Is there a specific product line you are now making? Or how did you essentially displace the industrial headwind you had about a year ago?

Steve Frisch - Plexus Corporation - EVP & Chief Customer Officer

This is Steve Frisch.

There's two customers in that sector that we have been very successful with this last year. One is, the customer is outsourcing more. So this is stuff that they have done internally, and they have decided to go to an outsourced model, and we benefited from that significantly. The other customer that we have been ramping is a takeaway from the competition, so we are very happy about that as well. There's two customers in there that are performing really well for us in the year.

Todd Kelsey - Plexus Corporation - EVP & COO

And the one thing I would add to that as well, Mitch, is that we are not seeing end-market strength in industrial/commercial. The growth that we are able to achieve and the headwind we are able to overcome is a result of wins and winning new programs.

Mitch Steves - RBC Capital Markets - Analyst

Got it. And then just one really small one. So I know you mentioned you expect the June quarter to be at a similar run rate in December for the networking/communications. Does that just mean that the product transition essentially snaps back in the December quarter? I am just trying to get an idea for why it goes down 10, and then effectively up 10?

Todd Kelsey - Plexus Corporation - EVP & COO

We see some level of demand increased, but we also see the impact of some new programs that we are ramping right now.

Mitch Steves - *RBC Capital Markets - Analyst*

Got it. So no real material inflection to call out?

Todd Kelsey - *Plexus Corporation - EVP & COO*

No.

Mitch Steves - *RBC Capital Markets - Analyst*

Okay. Thank you so much.

Operator

Jim Suva, Citi.

Jim Suva - *Citigroup - Analyst*

Congratulations to you and your team at Plexus. Your operating margin performance has been very impressive, and then we compare that to your goals, and you're hitting them, you know, basically very strong, if not above. So this is more of a strategy question.

As you look ahead to the next year or two, you kind of face a roads of two good decisions. Do you walk away from business that could be higher sales, but maybe prevent you from taking your margins even higher? Or do look at considering, hey, now that your scale has been ramped up a little bit, restructuring is done, do you look at potentially taking on some of the margin business that maybe some of your competitors would take on, but maybe a little bit lower-margin? Thank you.

Dean Foate - *Plexus Corporation - President & CEO*

Yes, that's a good question, Jim, because of course once we're up into our margin range, the story shifts to top-line growth. I think just philosophically, the way we would look at this is, our drive toward shareholder value is about ever-increasing economic profit.

And of course, having our margin performance up in the range that it is, and improved working capital metrics is going to drive our ROIC higher here in the coming quarters because of our balance sheet metric portion of that, the denominator is on a five-quarter average, so we will see that improve. And then it's about driving top-line growth, which requires us to increase the capital base. And then achieving a consistent return on that ever-increasing capital base that is there to support higher revenues.

I think one of the boundaries that we look at in terms of accepting business, is, can we achieve our operating margin over a long time, our target range over a long time, with that new piece of business? And fundamental to that is whether or not we think we can sustain some level of competitive advantage with that program versus our competition. And so it's not extraordinarily complicated.

We also understand that not all pieces of business, from a margin standpoint, are priced the same; not all pieces of business require the same level of relative invested capital. So we give our sector teams some latitude to manage their portfolio, but at the same time, we expect them to deliver our targeted metrics on an overall basis, within that portfolio. So being up in the range that we are now gives us a little room to maneuver, where previously it was difficult for us to really maneuver with customers and be more competitive when we needed to, to get additional engagement with new customers. So I would expect us to start seeing acceleration of top-line growth, now that we're in the spot that we are in.

Jim Suva - Citigroup - Analyst

Great. And now as a different topic, regarding tax rate, now that you are restructuring, you have done some moves there and repositioned some of your customer and facilities, footprints and such like that. Long-range tax rate planning -- how should we think about that?

Pat Jermain - Plexus Corporation - SVP & CFO

I think, Jim, we can probably still stay within the low double-digit range for the next few years. You know, I am guiding 10% to 12% for the full year in FY16. I would expect something similar in 2017. Maybe it ticks up a little bit as we go past FY17, but nothing dramatic.

Jim Suva - Citigroup - Analyst

Great, thank you. And congratulations to you and your teams at Plexus.

Pat Jermain - Plexus Corporation - SVP & CFO

Thank you.

Operator

Herve Francois, B. Riley.

Herve Francois - B. Riley & Company - Analyst

I apologize, I have a little bit of a cold.

Steve Frisch - Plexus Corporation - EVP & Chief Customer Officer

We are not alone then. (laughter)

Herve Francois - B. Riley & Company - Analyst

No, we're not alone. Hopefully it will end soon. But on your healthcare life/sciences business, as you were giving some color commentary on the industrial business, can you give similar commentary on your healthcare/life sciences? Is it a combination of some demand strength or new program wins that you have been seeing for those customers and as it funnels into your business as well -- the \$2.5 billion that you talked about?

Steve Frisch - Plexus Corporation - EVP & Chief Customer Officer

This is Steve. It's very similar to the industrial/commercial story, where a significant amount of the growth is coming from new program ramps that we've announced over the last several quarters. Keep in mind, the ramp schedule for healthcare/life sciences is a big longer, so the stuff that we're seeing ramping now are actually from wins that go back into the beginning of the year, and even at the end of FY15. So that is where the strength is coming from. The end markets, as I think Todd mentioned, are flat and a little bit -- I don't think he used the word volatile, but they don't move around a lot. But we haven't seen significant growth from the end-markets themselves.

Herve Francois - *B. Riley & Company - Analyst*

Got it, thank you very much. And then also, when you look at some of the program wins that you have been getting from your industrial customers, can you talk about the size of the wins? Have you seen any increase in the size of the program wins that you have been getting from some of the customers in that sector?

Steve Frisch - *Plexus Corporation - EVP & Chief Customer Officer*

This is Steve again. Yes, the program wins that we have been experiencing in industrial/commercial and the two that we have talked about a little bit, the size of those programs are decent-sized programs, bigger than what I would say is a traditional industrial/commercial opportunity. And it's really led by a couple of things. One is, in one case, the customer decided to outsource the significant portion of their work.

And so that came in a nice-sized chunk. The other one, the product line is quite substantial, and we're sole-sourced on being able to build that, so we won the entire project. So again, two really nice, healthy-sized programs there. I think the other part that is key here is that we are also making inroads into other divisions of those entities. So we see there's a nice continued relationship with both of those customers.

Herve Francois - *B. Riley & Company - Analyst*

And is that having any -- just lastly, is that having any [looming] impact? Would you expect it to have any kind of impact in your operating margins as these program wins, their size get a little bit bigger from the size of the product lines?

Steve Frisch - *Plexus Corporation - EVP & Chief Customer Officer*

I think from a pricing standpoint, as you ramp new programs, they are always a bit more challenged on the markets, because there's a lot of expenses that go into ramping a program. As we've talked about before, we model the sectors and strive towards a 4.7% to 5% goal. So they are actually a little bit more challenged in the beginning, and as we ramp up, our expectation is that their performance is going to fall in to help us achieve our operating margin goals.

Todd Kelsey - *Plexus Corporation - EVP & COO*

And the thing I would add though too is, when we set our operating margin goals as 4.7% to 5%, that includes ramping the new business that we need to fuel our growth. So our expectations is that we can grow and maintain those margins.

Herve Francois - *B. Riley & Company - Analyst*

Got it. Thanks very much.

Operator

Sean Hannan, Needham & Company.

Sean Hannan - *Needham & Company - Analyst*

Can you hear me?

Todd Kelsey - Plexus Corporation - EVP & COO

Yes.

Sean Hannan - Needham & Company - Analyst

Congratulations on the quarter. Just another set of questions around some of your wins here. And particularly, when I look at this slide 9 that you have within the presentation, just trying to get a little more context around -- when you think about the wins that have been accumulated through, say, the end of FY15. Is there a way if you can characterize for us how much for each of your segments is now in full production mode for those that were won through the end of FY15?

And then as we look at the groupings of wins that we have taken on here in FY16, and especially, say, industrial comes to mind, because you have had some good momentum there, to get some context around how much of that is in play? Clearly, the nontraditional markets take a bit longer to ramp. But any more color would be helpful. Thanks.

Dean Foate - Plexus Corporation - President & CEO

You are trying to get at how much of the revenue growth is already in the bag. (laughter)

Sean Hannan - Needham & Company - Analyst

In effect, but obviously if there is some color we can interpret or extrapolate for how much further momentum there could be as well?

Steve Frisch - Plexus Corporation - EVP & Chief Customer Officer

This is Steve. I will take a shot at this.

And what I am going to say is very high-level and generic, because every program can be significantly different. But you hit on it, is that, networking/communication, the ramp on those programs is -- if you had to give an average, you are looking at six months. So anything that we win, we typically expect to be ramped in a six-month timeframe, six to eight months.

Healthcare/life sciences can be substantially longer. It can be anywhere from probably 18 months to 24 months before we see a volume ramp. Defense/security/aerospace is a similar story in terms of our length of ramp. And industrial/commercial can be somewhere in between. We can see things ramp relatively quickly -- six months. It can be longer; 12 months 18 months, especially if you look like a semiconductor customer.

And the caveat I'll put on this is also where it comes from. Our healthcare/life sciences wins, a lot of those are products that we are designing. So the ramp schedule can be a bit longer. In the case of the industrial/commercial, that customer that I talked about where we -- basically, they decided to outsource. It's a pretty significant fast ramp.

And so that's also the challenges, is that, whether or not this is a new program that they are trying to penetrate the market, or whether it's existing business that we're transitioning in, the ramps can be all over the place. Hopefully that gives you a little bit of color. But it is really hard to say that there is a specific one for each one.

Todd Kelsey - Plexus Corporation - EVP & COO

So Sean, I think I will add just a little bit more color around FY17 too, just to give you and the others a bit better idea of our view. If we go back to June when we had Investor Day, we painted a optimistic picture for FY17 and beyond, from a growth perspective. And what I would say is, we still



feel that way. We talked about the potential for solid growth in FY17, with a goal to get to the low double-digits. We still view that as a reasonable goal.

Now, it's certainly too early to guide. It's too early to call the year, because a lot of things can change in a big way. But if end-markets hold up, if we don't see end-markets crash, if new program ramps go as we anticipate, we expect to really grow meaningfully on a year-over-year basis in each of our quarters. We do believe that all our sectors are going to show growth within the year. And that's how things are lining up at the moment.

Sean Hannan - *Needham & Company - Analyst*

All very helpful color. Thanks so much, folks.

Todd Kelsey - *Plexus Corporation - EVP & COO*

Thank you.

Operator

We have no further questions at this time. I would like to turn the call back over to Dean Foate.

Dean Foate - *Plexus Corporation - President & CEO*

All right, well, again, I want to thank, of course, the sell-side analysts, who just do a fantastic job covering Plexus and our story. And I want to thank the investors who are on the call, for supporting Plexus.

This is my last earnings call. And so I want to thank all of you for the great support. And of course, I appreciate you all on an individual basis as well. I know many of you personally. So thanks for the support over the years. And with that, we will close down the call. Thank you.

Operator

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

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2016, Thomson Reuters. All Rights Reserved.

