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EDITED TRANSCRIPT

PLXS - Q1 2018 Plexus Corp Earnings Call

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OVERVIEW:

Co. reported 1Q18 revenue of $677m and GAAP diluted loss per share of $2.93. Expects 2Q18 revenue to be $670-710m and GAAP EPS to be $0.68-0.78.

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PRESENTATION

Operator

Good morning and welcome to the Plexus conference call regarding its fiscal first-quarter 2018 earnings announcement. My name is Paulette and I will be your operator for today's call. (Operator Instructions)

I would now like to turn the call over to Ms. Susan Hanson, Senior Director of Communications and Investor Relations. Susan?

Susan Hanson - *Plexus Corp. - Director of Corporate Communications & Brand Management*

Thank you, Paulette. 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 September 30, 2017, 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, adjusted earnings per share and adjusted operating margin, to provide a better understanding of core performance for purposes of period-to-period comparison. 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' website, www.plexus.com, clicking on the investor relations section at the top of that page. Joining me today are Todd Kelsey, President and Chief Executive Officer; Steve Frisch, Executive Vice President and Chief Operating Officer; and Pat Jermain, Senior Vice President and Chief Financial Officer. Consistent with prior earnings calls, Todd will provide summary comments before turning the call over to Steve and Pat for further details.

Let me now turn the call over to Todd Kelsey. Todd?

Todd Kelsey - *Plexus Corp. - President and CEO*

Thank you, Susan, and good morning, everyone. Please begin with our fiscal first-quarter results on slide 3. After the close of the market yesterday, we reported results for our fiscal first quarter of 2018.

We achieved record revenue of $677 million within the quarter. We incurred a $125 million tax expense as a consequence of US tax reform, negatively impacting our GAAP EPS result. Our diluted GAAP loss was $2.93 per share. Excluding the tax impact, we delivered non-GAAP diluted EPS of $0.75, including $0.11 of stock-based compensation expense.

Despite the significant tax charge, we view US tax reform as immensely beneficial, given it provides us an opportunity to efficiently access our global cash. Therefore, we are refining our capital allocation philosophy and plan, which we will share within the coming months. Pat will provide insight into our current thought process regarding capital allocation during his comments.

Our industrial commercial and healthcare life sciences sectors both achieved sequential growth and exceeded expectations as we saw strength in the semiconductor capital equipment space as well as with two large healthcare customers. Our communications and aerospace and defense sectors underperformed as we experienced softness within our security business and were negatively impacted by ramp rates of new programs across both sectors.

We delivered operating margin of 4.7% for the fiscal first quarter. Even though our operating margin was within our target range of 4.7% to 5% for the seventh consecutive quarter, our non-GAAP EPS was at the low end of our guidance range as a result of product mix and costs associated with a significant number of new program ramps.

Our return on invested capital was 16.2%. This represents an economic return of 670 basis points above our weighted average cost of capital, well above our 500-basis-point goal.

Next I will highlight a few significant nonfinancial accomplishments within the fiscal first quarter. First, we completed our most recent customer Net Promoter Survey in November and achieved a score of 80.4%.

Our customer Net Promoter Survey score has been above our 80% goal for 2 straight years. This industry-leading result highlights our commitment to operational excellence and customer service excellence and provides a strong foundation to grow lasting customer relationships. Providing our customers this high level of service is a core element of our growth strategy.

Second, our Penang Riverside facility achieved supplier gold status from United Technologies Aerospace Systems. The UTC supplier gold program recognizes suppliers for world-class integrated supply chain performance.

In order to achieve this prestigious status, a supplier must attain 100% on-time delivery while delivering zero defects over a one-year period. The award showcases Plexus' ability to differentiate through superior execution in the highly complex aerospace and defense market.

Finally, we announced an expansion of our Oradea Design Center in Romania. This marks the latest in a series of investments in our engineering solutions organization. We continue to aggressively grow this differentiated service offering that is core to our culture and anticipate further expansion within our other regions in fiscal 2018.

The Oradea Design Center expansion is necessary to support our expectations for strong revenue growth in Europe in the current fiscal year. We expect to add meaningful revenue within our European manufacturing facilities, which will appreciably impact profitability in the region, particularly in the back half of the fiscal year.

Advancing to our guidance for the fiscal second quarter of 2018 on slide 4, strong sequential growth in our healthcare life sciences, industrial commercial, and aerospace and defense sectors is expected to more than offset a significant revenue reduction in our communications sector. As a result, we are guiding fiscal second-quarter 2018 revenue in the range of $670 million to $710 million, representing a continuation of sequential revenue growth at the midpoint.

While we are diligently working to maintain our operating margin within our target range, we expect our margins will be under pressure in the current quarter. This is due to the large number of new program ramps and seasonal payroll headwinds as a result of annual compensation adjustments and the reset of US payroll tax. Ensuring these program ramps are successfully transitioned is a top priority, as it positions us well for growth in the balance of the fiscal year.

We are guiding GAAP EPS in the range of $0.68 to $0.78 for the fiscal second quarter of 2018, exclusive of any additional impact related to US tax reform. The EPS guide includes $0.13 of stock-based compensation expense.

Please advance to slide 5 for a few thoughts regarding fiscal 2018. While we recognize our operating margin performance for the fiscal second quarter is projected to be below recent levels and below our expectations, we see this as a near-term issue.

Our seasonal cost headwinds will be overcome through ongoing productivity improvement initiatives. In addition, increasing revenue from new program ramps will provide operating leverage. Within our current view, we anticipate operating margin to be comfortably within our target range for each of the final two quarters of the fiscal year.

In addition, our revenue outlook for the remainder of fiscal 2018 continues to strengthen. We currently expect growth in each of our market sectors within fiscal 2018. Our expectation is to achieve sequential revenue growth each quarter, accelerating in the back half of the year, leading to double-digit revenue growth for the full year. Supporting future growth, our manufacturing wins exceeded $200 million in the fiscal first quarter and our funnel of qualified manufacturing opportunities remains very healthy at $2.8 billion.

Finally, we view US tax reform as a significant positive development for Plexus. While we expect our effective tax rate to increase modestly, the ability to efficiently access our global cash is meaningful. This will allow us to create a much more effective capital structure as we move forward.

I will now turn the call over to Steve for additional insight into the performance of our market sectors and operations. Steve?

Steve Frisch - *Plexus Corp. - EVP and COO*

Thank you, Todd. Good morning. Please advance to slide 6 for a review of our market sector performance during the first quarter of fiscal 2018 as well as our expectations for the sectors in the fiscal second quarter of 2018.

Our healthcare life sciences sector was up 2% in the fiscal first quarter, which was slightly above our expectations of flat revenue. Looking ahead to the fiscal second quarter, new program ramps with several customers is offsetting seasonal softness with one customer.

As a result, we anticipate a mid-single-digit revenue increase in our healthcare life sciences sector in the fiscal second quarter. We expect the new program ramps and strengthening end markets will enable strong revenue growth in our healthcare life sciences sector in the second half of fiscal 2018.

Our industrial commercial sector was up 9% sequentially in the fiscal first quarter, which was above our expectations of a mid-single-digit increase. The stronger-than-anticipated revenue was mainly due to increased demand from two semiconductor capital equipment customers.

As we look towards the fiscal second quarter, increasing end market demand, especially in the semiconductor capital equipment market, is continuing. As a result, we anticipate a low double-digit increase in our industrial commercial sector in the fiscal second quarter. Given the stronger-than-anticipated first half of fiscal 2018, we now expect moderate year-over-year growth for our industrial commercial sector.

After an exceptionally strong finish to fiscal 2017, our communications sector was down 4% sequentially in the fiscal first quarter of 2018. This result was below our expectations of a mid-single-digit increase. Slower-than-anticipated ramps for three programs were the main contributors to the softer results.

Looking ahead to the fiscal second quarter, we expect some seasonal softness in our communication sector. In addition, a networking customer that was recently acquired has decided to consolidate their business with another supplier.

We expect the impact of these 2 events will result in a mid-20s sequential decline in the fiscal second quarter. However, we anticipate that strong growth with new program ramps in the fiscal third quarter will enable meaningful year-over-year growth for the communications sector for fiscal 2018.

Our aerospace and defense sector was down 8% in the fiscal first quarter, a result that was below our expectations of a low-single-digit decline. Weaker end market demand across several customers was the main reason for the lower revenue.

As we look towards the fiscal second quarter, we expect that improved end markets and new program ramps will result in a mid-teens increase for our aerospace and defense sector. In addition, we anticipate the new program ramps will continue to provide significant growth in the back half of fiscal 2018.

Please advance to slide 7 for an overview of our manufacturing wins. During the fiscal first quarter, we won 44 new programs that we expect to generate $200 million in annualized revenue when fully ramped in production.

Our trailing four-quarter manufacturing wins, as shown by the red bars, is at $794 million. This results in a wins momentum of 31%, well above our 25% target. As we look to the fiscal second quarter, we expect that strong wins will keep the wins momentum at a very healthy level.

Please advance to slide 8 for further insight into the wins performance by region. The Americas and APAC regions had strong manufacturing wins of $109 million and $83 million, respectively. Awards from existing customers in all four of our market sectors drove the robust wins in each region. Although the EMEA region's manufacturing wins were light this quarter, the trailing four quarters of wins supports the significant growth the region is expecting in fiscal 2018.

Please advance to slide 9 for further insight into the wins performance by market sector. The healthcare life sciences team produced $106 million in manufacturing wins in the fiscal first quarter, an exceptional result. Included in the wins is a significant new medical device that our engineering solutions team has been codeveloping with an existing customer. In addition, the team won our first manufacturing program with a key new healthcare life sciences customer.

The industrial commercial sector generated $60 million in wins in the fiscal first quarter. Although we continue to gain market share with our semiconductor capital equipment customers, a majority of the quarter's wins were from customers in other subsectors.

The communications and aerospace and defense sectors results included key manufacturing wins from existing customers. While we are satisfied with the quality of our wins, we are focused on increasing the quantity in these sectors.

As such, we are investing in go-to-market resources within the communications and aerospace and defense sectors. We expect the funnel of new business opportunities to increase within these sectors in the coming quarters.

Please advance to slide 10. We finished the fiscal first quarter with very strong funnel of $2.8 billion of qualified manufacturing opportunities. The healthcare life sciences team maintained their funnel at almost $1.4 billion, another exceptional result considering the strong wins they had in the quarter.

Our industrial commercial team generated good wins within the quarter and proactively removed an opportunity from the funnel that would not have been a long-term strategic fit. As a result, their funnel dipped.

The communication sector funnel decreased as two customers decided not to change their outsourcing strategy. It is also important to note that the pipeline of leads that drives our funnel is strong. As I highlighted on the last slide, we are making resource investments to convert those leads into opportunities and ultimately into wins.

Next I would like to turn to operating performance on slide 11. Our revenue in the fiscal first quarter finished at a record $677 million. As we look to our fiscal second quarter, achieving the midpoint of our revenue guidance would result in another quarter of record revenue.

The revenue growth is a result of several new program ramps. When we combine the impact of the resource investments necessary to support those new program ramps with seasonal payroll headwinds, our operating margins are under pressure in the fiscal second quarter. As a result, we are guiding operating margins in the range of 4.3% to 4.7% for the fiscal second quarter of 2018.

Please advance to slide 12. In the fiscal first quarter, we made three strategic facility investments to support our growth plans for fiscal 2019 and beyond. First, we expanded our Oradea Design Center in Romania. The expanded facility supports the growth of our engineering solutions team in EMEA as well as provides the necessary laboratory required for the design and verification of highly complex products.

Second, we decided to relocate our Boulder Design Center to a newly constructed leased facility. This facility will support the expansion of our engineering solutions team in the Americas as well as improve the innovation laboratories within the design center. We expect the move to occur within our fiscal third quarter.

Third, we signed a definitive agreement to acquire a 432,000-square-foot facility on a 12-acre property adjacent to our Riverside facility in Penang, Malaysia. The transaction is expected to close late this quarter.

During fiscal 2018, our plans are to outfit the facility to expand our service offerings for the healthcare life sciences sector, including the addition of microelectronics capabilities. These investments will have minimal impact to our operating margins in fiscal 2018.

A few final comments. As Todd highlighted earlier, our customers are rewarding us for our operational excellence and customer service excellence. In addition to the formal recognition, we are being awarded new programs that are enabling record revenue levels.

We are committed to investing in the resources and infrastructure necessary to support the growth. And we are committed to returning our operating margins firmly within our target range in the fiscal third quarter of 2018.

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

Pat Jermain - *Plexus Corp. - SVP and CFO*

Thank you, Steve, and good morning, everyone. Before reviewing our fiscal first-quarter results, I'd like to spend a few minutes discussing the recent US tax reform and the impact on Plexus. Please turn to slide 13 for details.

As Todd mentioned, during the fiscal first quarter, we recorded an estimated tax expense directly related to US tax reform of $125 million or $3.59 per diluted share. Three components comprise this tax expense.

The first and most significant component related to the mandatory repatriation tax on our undistributed foreign earnings. This expense of approximately $100 million is payable over 8 years, with the first installment of $8 million due early in calendar 2019.

The second component, totaling approximately $23 million, is related to the withholding tax on certain offshore cash balances, which are now expected to be remitted to the US. This tax will not be paid until the funds are physically moved out of the foreign country. Finally, there is approximately a $2 million impact related to state taxes as a result of the new legislation.

At this time, these amounts represent a reasonable estimate of the eventual and final amounts that will be due. We may see changes to our estimates as final guidance and interpretations are issued by the Treasury Department and the authoritative accounting bodies.

One comment to make regarding our US deferred tax assets and the reductions to those assets due to the corporate tax rate change from 35% to 21%. Although our deferred tax assets will reduce, there is no income statement impact as we are in a full valuation allowance in the US.

For fiscal 2018, we anticipate our effective tax rate will increase by 2 percentage points to 3 percentage points as a result of the additional withholding tax associated with our offshore earnings in certain countries. Once we move into fiscal 2019, we expect our US earnings will include a new form of taxable income, referred to as global intangible low-taxed income.

This income would potentially be generated from our earnings in Asia, where we currently operate under a tax holiday in one country. We are still working through the impact; however, we anticipate the tax on this additional income would increase our effective tax rate.

We view US tax reform favorably since it will allow us to access approximately $500 million of offshore cash. We plan to take full advantage of the repatriation opportunity and anticipate leaving offshore only the cash necessary to support working capital needs and planned investments.

Our expectation is to bring back portions of the cash later this quarter. As we consider uses for the available cash, our first priority remains capital investments and working capital requirements to support future organic growth opportunities in the US. For other uses, we will initially consider paying down our revolver debt balance, given the interest rate differential between foreign deposits and US borrowing.

On average, we borrow over $100 million through the credit facility, which supports working capital needs and capital investments in the US. In addition to the debt we borrow under the credit facility, we have $175 million of private placement debt coming due this June.

Although we believe in running an efficient balance sheet with an appropriate amount of leverage, reducing the notional value as we refinance this debt will be a consideration. We also have approximately $100 million remaining under our share repurchase program, which funds could be directed towards.

Other opportunities for the remaining cash are under consideration, which would require approval by our Board of Directors. We are meeting with them later this quarter to review all these alternatives. As Todd mentioned, we expect to share more details with all of you over the next few months.

Now on to the financial results. Our fiscal first-quarter results are summarized on slide 14. First-quarter revenue of $677 million and gross margin of 9.4% were both slightly below the midpoint of our guidance. As guided last quarter, we saw a sequential decline in gross margin due to the product mix, additional investments in program transitions, and higher incentive compensation expense.

Selling and administrative expense of approximately $32 million was in line with our quarterly guidance. As a percentage of revenue, SG&A was 4.7%, a sequential improvement of 20 basis points.

Operating margin of 4.7% was also in line with our quarterly guidance. Included in this quarter's operating margin was approximately 60 basis points of stock-based compensation expense.

As discussed earlier, first-quarter GAAP diluted loss per share of $2.93 includes a $3.59 per-share detriment as a result of the additional income tax expense related to US tax perform. Excluding this expense, non-GAAP diluted EPS of $0.75 was at the low end of our guidance. Slightly lower revenue and operating margin contributed to the result below the midpoint.

Turning now to the balance sheet on slide 15, return on invested capital was 16.2% for the fiscal first quarter, consistent with our fiscal 2017 return, and 670 basis points above our weighted average cost of capital of 9.5%. Reductions in invested capital due to the impact of US tax reform benefited our return by approximately 130 basis points.

During the quarter, we purchased approximately 158,000 of our shares for $9.5 million at an average price of $60.25 per share. For the fiscal first quarter, we generated approximately $69 million in cash from operations and spent $17 million on capital expenditures, delivering free cash flow of approximately $52 million, a result well above our projection. Free cash flow was favorable to our expectations as a result of improvements in working capital and lower capital spending.

The building purchase in Penang, Malaysia was originally forecasted to be paid in the fiscal first quarter. We are now anticipating a payment of approximately $25 million to be made in the fiscal second quarter.

At the end of the fiscal first quarter, our cash balance was over $500 million, with approximately 90% of the balance offshore. Cash cycle at the end of the first quarter was 67 days, better than our expectations and a sequential improvement of three days. Please turn to slide 16 for details on our cash cycle.

Sequentially, we increased inventory dollars by approximately $15 million to support the ramp of new customer programs. As such, we had a one-day sequential increase to inventory days. Days in receivables were 45 days, sequentially improved by five days, primarily due to the continued benefits of our receivable factoring program.

Other contributing factors were the timing of customer shipments at quarter end and the customer mix. Sequentially, payable days were flat while customer deposits were down one day.

As Todd has already provided the revenue and EPS guidance for the fiscal second quarter, I will share some additional details, which are summarized on slide 17. Fiscal second-quarter gross margin is expected to be in the range of 9.2% to 9.6%. At the midpoint of this guidance, gross margin would be similar to the fiscal first quarter.

Seasonal compensation cost increases as well as the reset of payroll taxes for US employees will sequentially impact gross margin by approximately 50 basis points. We expect to offset this impact through continued operational productivity and better leveraged fixed expenses with the anticipated higher revenue.

For the fiscal second quarter, we expect SG&A expense in the range of $33.5 million to $34.5 million, up sequentially due to the seasonal compensation headwinds, which are about $1 million. At the midpoint of our revenue guidance, anticipated SG&A would be 4.9% of revenue, sequentially up 20 basis points.

Fiscal second-quarter operating margin is expected to be in the range of 4.3% to 4.7%, which includes approximately 65 basis points of stock-based compensation expense.

A few other notes: depreciation expense for the fiscal second quarter is expected to be approximately $12 million, consistent with the fiscal first quarter. We estimate a non-GAAP effective tax rate of 10% to 12% for the fiscal second quarter as well as for the full year. These rates include the impact from additional withholding tax associated with offshore earnings in certain countries.

Our expectation for the balance sheet is for working capital dollars to be up from the fiscal first quarter. Based on forecasted levels of revenue, we expect these changes will result in cash cycle days of 70 to 74 days for the fiscal second quarter. The increase in days reflects additional working capital investments to support expected higher levels of revenue in the remainder of the fiscal year.

In addition, we expect to return certain customer deposits, representing three days of cash cycle. With the additional working capital investments and higher capital spending related to the building purchase in Malaysia, we expect cash outflows of $30 million to $50 million for the fiscal second quarter. With this in mind, we still expect to exceed $100 million in free cash flow for the full fiscal year.

There have been no changes in our capital spending estimate for fiscal 2018. We still expect spending in the range of $80 million to $90 million.

With that, Paulette, I will now open the call for questions. We ask that you please limit yourself to one tax reform question and one follow-up. Just kidding on the tax reform. Paulette?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Sherri Scribner, Deutsche Bank.

Sherri Scribner - *Deutsche Bank - Analyst*

I just wanted to dig a little bit more into the results in the communications segment, seeing that it sounds like some programs didn't ramp as quickly and there was an acquisition that impacted some of your business. Can you give us just a little more detail on what happened there? Because it seemed like that drove some of the lower demand and is driving a lower outlook for 2Q.

Todd Kelsey - *Plexus Corp. - President and CEO*

Yes, so Sherry, I'm going to start. This as Todd, and I will start with the acquisition discussion. And then I will pass it over to Steve to give a little more color around the sector.

But -- so first of all, that didn't have any impact to Q1. And I would say it created a little bit of maybe a challenging comparable to Q2, so I will start with that. But if we look at the details of it, it was a long-term relationship that we had had. And that company was acquired some time ago, I would say, and the acquiring company went through an evaluation and decided to consolidate their supply chain. To existing suppliers, in essence, so that was disappointing.

It is a networking customer, so it falls -- within our communications base, it falls within networking. And that takes networking down to about 10% of that sector right now.

Now, what I would say is we have known about this for several quarters and we have accounted for it in our forecast. So any of the projections we had made about the fiscal year and such and had already included this and had it baked in.

The other thing is, too, if we hadn't seen the seasonal softness in communications that we are seeing right no, it is likely we wouldn't have even talked about it. Because it is not anywhere the significance of some of the other -- some of those other situations that we've talked about in the past.

But what we didn't want to do, given this was occurring along with the seasonal softness, we didn't want anybody to draw the wrong conclusion about what is happening within the sector or with any of our customers within that sector.

Sherri Scribner - *Deutsche Bank - Analyst*

Okay so just to clarify -- I'm sorry. Please go ahead, Steve.

Steve Frisch - *Plexus Corp. - EVP and COO*

The only thing I was going to add was that we also wanted -- in terms of the ramps that are happening, we talked in the past a bit about in terms of Plexus and did we have the capacity and we basically able to keep up with the ramps.

The answer to that side of the equation is that we are fully able to support all the ramps that are happening. So now it's just working with the customers to make sure that their plans and what they need to deliver are happening. So from that standpoint it's moving ahead. We're just basically working with our customers to meet their needs as they request.

Sherri Scribner - *Deutsche Bank - Analyst*

So just to clarify, the acquisition, you already knew about. So the miss on the communications side is largely related to seasonal weakness that you didn't anticipate?

Todd Kelsey - *Plexus Corp. - President and CEO*

Yes, the miss in Q1 is really a result of ramp rates of programs. The Q2 situation is more around seasonal weakness along with the situation with this one customer.

Sherri Scribner - *Deutsche Bank - Analyst*

Okay. All right, got it. And then I guess if I look at the trailing four-quarter manufacturing wins chart on slide 7, it seems like the wins are sort of now trailing down when you look at the chart. And I guess I would want to see that moving up to believe that you'd continue to see good revenue growth.

Do you anticipate that moving up in the near term or in the next couple of quarters? And how should we think about that chart moving down over the past couple quarters? Thanks.

Steve Frisch - *Plexus Corp. - EVP and COO*

Sure. So I mean, our first goal is obviously to meet above our 25% target. And so as long as we stay above that, we feel like we are healthy. In terms of the trend down, yes, it has been trending down the last couple quarters. We would expect this quarter to be a strong quarter and that trend to turn to a more positive direction.

Todd Kelsey - *Plexus Corp. - President and CEO*

One of the things I would just highlight, too, is while is trended down, it hasn't trended down in a really significant way. It is just kind of a soft turn. So we would expect to see that come up this quarter with the strong wins that we are expecting.

Operator

Shawn Harrison, Longbow Research.

Shawn Harrison - *Longbow Research - Analyst*

Morning, everyone. I guess two questions. First off, just on I guess the cash to repatriate, there is nothing in guidance assumed for accelerated buyback or debt reduction or anything of that nature. And so if that were to occur in the quarter, that would be I guess a bonus to you or something. Is that the correct way to think about how you are going to utilize the cash here?

Pat Jermain - *Plexus Corp. - SVP and CFO*

Yes, that's true, Shawn. With the exception of we think, like I said, we can bring some of this cash back this quarter. And we baked in a little of that in the March time period to pay down some of our debt. But it's not a significant amount for just that one month.

Shawn Harrison - *Longbow Research - Analyst*

I guess what's the greatest hurdle in terms of bringing it back? I'm assuming you are not like physically moving it anywhere?

Pat Jermain - *Plexus Corp. - SVP and CFO*

No, I think it's just our tax team working through the mechanics and all the documentation that's required. So I think we can get a good portion of that back this quarter.

Shawn Harrison - *Longbow Research - Analyst*

Okay. And then secondarily, last quarter, you were a bit more sanguine on the outlook for semi cap. And obviously, you've seen some stronger growth here. What is the view for semi cap now for fiscal 2018 versus where it was 90 days ago?

Steve Frisch - *Plexus Corp. - EVP and COO*

Looking at the market in general, F17 was a very strong year. We see the market itself in calendar 2017 was 35%, 36% growth depending upon who you listen to. We outpaced that significantly.

As we look to 2018, the industry is looking at a 7% to 8% growth rate. We expect to outpace that. And so we are benefiting not only from the growth of the market, we are also gaining market share with several customers because they've struggled with their supply base being able to keep up in 2017. So we have been awarded new business.

And so we are seeing decent growth as we start the first half here. We expect it now to continue into 2018 or the end of 2018. And so the question we are really starting to talk about is what does this look like into 2019? Does it level off? And that's kind of the expectation for now. But again, for 2018, we are expecting a very respectable subsector for those guys.

Todd Kelsey - *Plexus Corp. - President and CEO*

And kind of what has changed in the last quarter, Shawn, is when we look at particularly the back half of the year, we are a little more conservative. I think we are getting a little bit more bullish based on what we are seeing from our customers right now.

Shawn Harrison - *Longbow Research - Analyst*

Okay. Thank you. And if I may go back to the tax dynamic, one of the slides said go to the Board for, I don't know, whatever it was, other uses of cash that would be shareholder-friendly. What does that entail, if you can talk about it now?

Pat Jermain - *Plexus Corp. - SVP and CFO*

Yes, some we wouldn't want to talk about before we have the conversations with the Board. But one idea, Shawn -- I mentioned we've got $100 million left under our share repurchase program. I mean, going back to the Board and asking them to maybe double that amount is something we'd consider as well.

Shawn Harrison - *Longbow Research - Analyst*

Perfect. Thanks so much.

Pat Jermain - *Plexus Corp. - SVP and CFO*

Shawn, what I'd end with is, I mean, what we are really pleased about with being able to access this cash on an ongoing basis is to be able to go out to our investors with a commitment on returning a certain percentage on an annual basis to our shareholders as a percentage of free cash flow, which I think we are really excited about being in that position where we haven't been in the past when that cash has been trapped offshore.

Operator

Jim Suva, Citi.

Jim Suva - *Citigroup - Analyst*

Thank you very much and good morning to you and your team. A quick question about your margins and your ramp rate challenges. Does that change the like NPV of the entire project? Are you going to recoup it or was that built-in?

And at some point, will these new projects, since it sounds like they are more challenged up front, are they actually like materially higher than your corporate average operating margin? I'm trying to figure out how the economic challenges now close the gap long term once you have them ramped?

Todd Kelsey - *Plexus Corp. - President and CEO*

Jim, I will start with this and Steve will probably have some color to add at the end, too. But one of the things I'd like to start with is just by backing up just a little bit, too.

And if we think about towards the end of fiscal 2017, and we know we had really strong margin performance in 2017, above our target range. And there was a lot of discussion around can you consistently hit those margins, will it go up?

And we spend a lot of effort talking about our target. Our goal is to drive 4.7% to 5% growth -- or 5% operating margins, excuse me, with accelerated growth. And in many ways, it's what's happening. Other than we've got the challenge with Q2 around the seasonal comp adjustments or the seasonal adjustments, which is about 50 basis points or even above that. So we are overcoming a bunch of that now already in the second quarter.

So as we look to Q3 and beyond, the way we see this playing out is the programs continue to transition. So we get operating leverage on those programs, and then we overcome the seasonal costs. So it really boosts margins in a pretty meaningful way.

And when we think about the transitions themselves and the return on them, I think our return expectations are fine. And we still view those as being highly profitable because they are long-term programs.

But one of the things that we've got going on today that's maybe a little bit different is we have I would call it high-single digits of really complex and significant from a revenue standpoint transitions that are going on, which is more than typical. That's in addition to the countless other, call them, straightforward transitions that we are undergoing right now.

So we want to make sure we do the right thing for our customers first and foremost. But it also has a really meaningful impact to us as we get to the back half of the year from a revenue standpoint as we get these programs continued to ramp from a revenue standpoint.

Jim Suva - *Citigroup - Analyst*

That makes a lot of sense. Go ahead.

Steve Frisch - *Plexus Corp. - EVP and COO*

Yes, just a couple things to add to that. Typically for us, the NRE costs associated with a transition get amortized in the production a bit. With that said, with some of these larger ones, we are looking at a different model of more of an upfront NRE model.

So it does vary by customer and program. But as Todd mentioned, it's really kind of the quantity of these things that are happening at this point generating a little bit of pressure.

Jim Suva - *Citigroup - Analyst*

And my quick follow up is now that we are pretty much through a lot of January, have those ramps now started to come back at least visibility into trajectory where you think they are going to be? Or do you think they are elongated for another quarter or two?

Todd Kelsey - *Plexus Corp. - President and CEO*

Yes, for the most part, they are coming back. We had a couple that we called out in particular. We saw some of the communications going just a little bit slower than we expected; a little bit of the aerospace.

But we can see on the horizon how they are ramping, and in general, the programs are ramping well. There's a couple in industrial and commercial that are actually ramping faster than we had anticipated.

So some of it is being offset. Because if you look at our revenue trajectory and you compare where our guide is from a revenue standpoint in Q2, it's pretty close to expectations there. So on balance, things are netting out pretty well. And when we look to Q3, Q4, we are actually seeing things strengthen from what our previous view was.

Jim Suva - *Citigroup - Analyst*

Thanks so much for the details and clarifications. And happy new year to you and your team.

Operator

(Operator Instructions) Mitch Steves, RBC Capital Markets.

Mitch Steves - *RBC Capital Markets - Analyst*

Thanks for taking my question. I just had one on the networking communications inside. So in the press release, it states you guys believe you are going to grow double digits across essentially all the end markets.

So with an adjustment from the [cuts] on the networking side, do you still believe that segment will grow double digits? And if so, is that more of a communications-heavy side, given that the networking customer is going away? Or how do I think about specifically that segment growing by product group?

Todd Kelsey - *Plexus Corp. - President and CEO*

I will just clarify at a high level, Mitch, and then Steve will provide some more details. But from a standpoint of the sectors themselves, what we are referring to is we expect all of them to grow, but we expect overall Plexus to be double digit.

So it's not necessarily each sector will be double digits. But if we look at on a per-sector basis, healthcare life sciences, aerospace and defense, we expect really strong growth in those two sectors. Industrial commercial, if you remember back to last quarter, we were thinking we would have to struggle to get it to flat. That's showing decent growth right now. And communications is still showing good growth as well, too.

So I am going to pass it to Steve for more color on communications.

Steve Frisch - *Plexus Corp. - EVP and COO*

I think Todd hit it straight on. We are expecting double digits in healthcare and aerospace and defense, as we said last quarter. Industrial commercial, we are now seeing modest growth as opposed to being flat.

And then communications we talked about being double digit last quarter. I think there is still a chance of it being double digit. It could fall into high-single digit, depending upon how these ramps go as we look in the back half of the year.

So as Todd said, overall, we are feeling good about double-digit growth for Plexus in the year. It just may shift the mix a little bit in terms of which sector does better versus what our expectations are as we finish the year.

Mitch Steves - *RBC Capital Markets - Analyst*

Right. And then broadly in the networking communications segment, which product lines are essentially going to be driving the revenue growth?

Steve Frisch - *Plexus Corp. - EVP and COO*

As we mentioned, the networking portion of that sector has dropped to less than 10%. So it's the communications sector that's driving the revenue growth.

Mitch Steves - *RBC Capital Markets - Analyst*

Okay, thank you.

Operator

Paul Coster, JPMorgan.

Paul Chung - *JPMorgan - Analyst*

This is Paul Chung on for Coster. Thanks for taking my questions. So just can you expand on the competitive pricing environment across segments? And where you are seeing the most pressure for new program wins and overall wins? What percentage of deals would you say the firm walks away from to maintain the long-term operating margin targets?

Steve Frisch - *Plexus Corp. - EVP and COO*

So maybe starting from our philosophy in terms of the funnel, we run a process of lead generation that before something gets into our funnel, we really try to qualify to make sure it fits our strategic strategy, which is including our revenue and margin targets for it.

So from that standpoint, I don't know that we've fundamentally seen a huge shift in the last several quarters to even the last couple of years in terms of the pressure. The competition is still the same and I think the market is relatively the same.

Obviously deal by deal, they change. And for us, I would say there is not a lot of significant change that I would say in any of the market sectors in terms of any different pricing pressures that we see.

I think probably the exciting thing for me from my perspective is it's been a cost-driven market a bit here over the last few years, mainly because supply was in excess, especially if you look at components. With tightening markets in components and things, customers are now getting more concerned about delivery.

And so from that standpoint, it's nice to have a few other things other than just price being on the customer's mind. And so from that standpoint, feeling pretty comfortable with where we are at.

With that said, we are not afraid, and we've talked about it in previous calls with other opportunities and customers where we walked away from things that don't match and we don't believe fit our long-term model.

Paul Chung - *JPMorgan - Analyst*

Okay. And just to follow-up on the new manufacturing wins and program ramps. So which segments are the bulk of these new wins coming in this quarter and over the past couple quarters? Just trying to get a sense of the margin mix. And I assume the higher healthcare mix is probably giving you some confidence in hitting margin targets for the back half. Thank you.

Steve Frisch - *Plexus Corp. - EVP and COO*

Sure. As we look at the kind of trailing four quarters of wins by sectors a bit, the healthcare life sciences, as we have been reporting here, is continuing to strengthen. So our wins as well as our revenue is doing really well there. Industrial commercial is flat to an uptick as well. So feeling good there.

Aerospace and defense, the trailing four quarters is one that's a little bit of a challenge because the programs are so long. It's maybe not as completely indicative. So we expect strong growth from aerospace and defense. But again, that goes back to programs that we may have won even previous than a year ago. So as they ramp and mature, we are seeing decent growth there.

Communications is the one that, from a sector standpoint, trailing four quarters it's down a bit. And as I put in my comments, it's an area that we're focused and we are realigning the team and adding some resources there to make sure that we have the right strategy going long term.

So with that, I will turn it over to Todd if you have got any final comments on that.

Todd Kelsey - *Plexus Corp. - President and CEO*

Yes, I just wanted to take us around -- I mean, we talked about sectors, but I want to hit on regions and wins right now. And while the EMEA region wins weren't very strong this quarter, the trailing four quarters for EMEA is really strong.

And what that is doing is it is driving some really impressive growth within the fiscal year. I really feel like the region is at an inflection point right now. Right now, we are projecting over 50% growth within the region in the fiscal year.

And if you look at how that would potentially translate, and again, how it gives us the leverage and the margins we expect in the back half of the year, if you look at our manufacturing operations in EMEA -- and this is not what we report in the 10-Q; this is really some internal measures that we have -- it's about breakeven right now. And we would potentially drive it into the high-single -- mid- to high-single digits by the back part of the year.

So pretty meaningful. We have got growth in both our UK and our Romanian operations within the region as well as within engineering and rapid prototyping. So it's something that we are really excited about being able to leverage the wins we had there over the course of the past year.

Operator

And we are showing no further questions. I will now turn the call back to Todd Kelsey for closing comments.

Todd Kelsey - *Plexus Corp. - President and CEO*

All right, thank you, Paulette. So in closing, I want to take a moment to thank everyone who joined us on our call today. We certainly appreciate your support and your interest in Plexus.

And what I want to do is leave you with a message of optimism for the balance of fiscal 2018 and beyond. With the program transitions we have underway and the improving end markets, we are positioned for strong growth in the balance of the fiscal year. In addition, we fully expect our operating margins to return to our normal level of performance. Finally, we are really excited about the opportunities presented as a result of US tax reform.

So one final note: our April earnings release and call will be one week later than typical due to some internal conflicts that we have. You can expect our earnings release after the close of the market on April 25 and our call the next morning. Thank you, again.

Operator

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