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PLXS - Q4 2017 Plexus Corp Earnings Call

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OVERVIEW:

PLXS reported 4Q17 revenue of $670m and GAAP diluted EPS of $0.84. FY17 operating profit came in at $130m. Co. expects 1Q18 revenue to be $665-705m and GAAP diluted EPS to be $0.75-0.85.

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PRESENTATION

Operator

Welcome to the Fourth Quarter 2017 Plexus Earnings Conference Call. My name is Sylvia, and I will be your operator for today's call. (Operator Instructions) Please note that this conference is being recorded. I will now turn the call over to Susan Hanson. Susan, you may begin.

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

Thank you. 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 1, 2016, 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 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 Investors 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. With that, let me now turn the call over to Todd Kelsey. Todd?

Todd P. Kelsey - *Plexus Corp. - President, CEO & Director*

Thank you, Susan, and good morning, everyone. Please begin with our fiscal fourth quarter results on Slide 3.

After the close of the market yesterday, we reported results for our fiscal fourth quarter 2017. Revenue was $670 million, with GAAP diluted EPS of $0.84. The EPS result included $0.14 of stock-based compensation expense.

The fiscal fourth quarter revenue represented a record high and was an 8% sequential increase from the fiscal third quarter. Our Healthcare/Life Sciences sector exceeded expectations with strong sequential growth. Our Communications sector revenue grew over 40% sequentially in the fiscal fourth quarter, although it was below expectations as a result of late quarter throughput challenges with new program ramps that have subsequently been resolved.

Our Aerospace and Defense sectors finished slightly below expectations. Our continued strong operating performance enabled us to achieve fiscal fourth quarter operating margin of 5.1%, our sixth consecutive quarter of meeting or exceeding our target operating margin range of 4.7% to 5%. We benefited from a favorable product mix and our Engineering Solutions organization had a strong quarter. Please advance to Slide 4 for a recap of fiscal 2017 accomplishments.

First of all, while we came up short with regards to your revenue goal, I am pleased with our operating performance for fiscal 2017. We delivered GAAP operating margin of 5.1% for the year, our best performance since fiscal 2008. Each quarter, we met or exceeded our target range of 4.7% to 5%. The strong margin led to record operating profit of $130 million, $13 million above our previous high. We generated meaningful shareholder value by achieving return on invested capital of 16.2%, resulting in an economic return of 570 basis points above our weighted average cost of capital. The economic return performance exceeds our 500 basis point goal, and is a 290 basis point improvement year-over-year. It also represents our best performance since fiscal 2006.

Our Engineering Solutions organization grew labor sales by nearly 13% year-over-year and delivered significant profitability. We continue to aggressively grow this differentiated service offering as core to our culture. Our Engineering Solutions exceeded $100 million in revenue this past year and its 5- year CAGR exceeds 10%. Our aftermarket services exceeded our expectations and was profitable in the second full year, since we launched our expanded service offerings and Center of Excellence. We delivered free cash flow of $133 million, a $36 million improvement over fiscal 2016, as we drove late year improvements in our working capital and judiciously managed capital expenditures.

Next, we have positioned fiscal 2018 for meaningful growth. Our Manufacturing Solutions wins momentum remains robust with $811 million of trailing 4-quarter wins. The profile of our manufacturing wins throughout the fiscal year continues to align with our differentiated portfolio. Further, we booked a significant level of wins in Europe, positioning us for robust growth in the region. In addition to the strong wins performance, our funnel of qualified Manufacturing Solutions opportunities ended the year at a new record $3 billion. The funnel is predominantly comprised of business in nontraditional noncommoditized markets. This is a space where programs typically have longer life cycles, and where Plexus is uniquely positioned.

Finally, our global teams continue to stand out in providing superior execution for our customers. We recently completed our semiannual Net Promoter Survey and achieved our highest score to date of 84%. We believe this result is best-in-class.

Please advance to Slide 5 for a few thoughts regarding fiscal 2018. I'm excited to announce the rollout of the new Plexus' brand. This endeavor has been a year in the making and has taken tremendous effort from our team. Our new brand design, emphasizes our consistent focus on solving complex challenges for our customers to help create the products that build a better world. I encourage you to visit our new website to see how Plexus differentiates. Beginning in fiscal 2018, we are rebranding our Defense/Security/Aerospace market sector as our Aerospace and Defense sector. The new name more accurately reflects our mix of business within the sector, as the majority of the products we support are Aerospace. Further, the go-to-market strategies of Defense and Security are aligned with security functioning as a subsector of defense. Operationally, our teams remain focused on delivering our target margin range on a quarterly basis throughout fiscal 2018.

While we faced challenges as a result of new program ramps, customer pricing pressure, increased incentive compensation due to anticipated growth and typical seasonal cost in our fiscal second quarter, we are actively working to mitigate the impact of each in order to achieve our target operating margin range. Finally, we are passionate about delivering meaningful growth in fiscal 2018. There are 3 components to our growth acceleration strategy. First, we look to leverage our differentiated portfolio. As we exited fiscal 2017, over 80% of our revenue was in nontraditional, noncommoditized sectors. These sectors have longer program life cycles and have consistently resulted in higher growth rates. Our exclusive focus on mid-to-low volume, high complexity markets provides advantages in operational efficiency and results in a more consistent platform for our customers.

Next, we continue to increase the expertise within our sector go-to-market organization. Plexus has well over a decade of aligning our organization to support the unique market sector requirements of our customers. This expertise extends beyond our business development and customer management processes and into quality, supply-chain, engineering and operations. For example, our quality team has regularly provided training to the food and drug administration on how to best audit companies within our industry.

Finally, we look to provide superior execution to our customers by focusing on customer service excellence and delivering exceptional quality products, on time at a fair price. The end result is long-term customer partnerships that enable our future growth. Advancing to our guidance for the fiscal fourth quarter of 2018 on Slide 6.

Strength in our Industrial/Commercial and Communications market sectors, are expected to offset a slight weakening within our Aerospace and Defense market sector. As a result, the midpoint of our guidance range suggests that we will achieve modest sequential revenue growth. We are guiding fiscal first quarter 2018 revenue in the range of $665 million to $705 million. At this level of revenue, we expect GAAP diluted EPS in the range of $0.75 to $0.85, as we continue to invest in new program ramps and account for an anticipated increase in incentive compensation expense as a result of expected fiscal 2018 revenue growth. The EPS guide includes $0.11 of stock-based compensation expense. I will now turn the call over to Steve for additional insight into the performance of our market sectors and operations. Steve?

Steven J. Frisch - *Plexus Corp. - Executive VP & COO*

Thank you, Todd, good morning. Please advance to Slide 7 for insight into the performance of our market sectors during the fourth quarter of fiscal 2017 as well as our expectations for the sectors in the fiscal first quarter of 2018.

Our Healthcare/Life Sciences sector was up 11% in the fiscal fourth quarter, which was above our expectations of mid-single-digit growth. Increased end market demand with 1 customer was the main contributor to the stronger result. Looking ahead to the fiscal first quarter of 2018, new program ramps that drove double-digit growth in fiscal 2017, have been successfully launched and our customers end market growth is modest. As a result, we anticipate revenue to be flat in our Healthcare/Life Sciences sector. However, the sector's strong new business wins performance has created a pipeline of new program ramps. Going into fiscal 2017, we expect these ramps to generate double-digit year-over-year revenue growth in our Healthcare/Life Sciences sector for fiscal 2018. Our Industrial/Commercial sector was down 6% sequentially in the fiscal fourth quarter, which was in line with our expeditions of a mid-single-digit decline. As expected, there was semiconductor capital equipment customers and lower revenue levels in the fiscal fourth quarter versus the exceptional result in the fiscal third quarter. As we look towards the fiscal first quarter of 2018, we see short-term strength with some semiconductor capital equipment customers and calendar year-end strength with a few other customers. As a result, we anticipate a mid-single-digit increase in our Industrial/Commercial sector in the fiscal first quarter. For fiscal 2018, we expect a semiconductor capital equipment revenue remain healthy earlier in the year-over-year, but full visibility within this subsectors and other customers within the Industrial/Commercial sector, is limited.

The Communication sector was up 41% sequentially in the fiscal fourth quarter, which was lower than our expectations of approximately 50% increase. Lower than anticipated ramp starts with 3 customers led to late quarter capacity challenges for 1 customer and delayed shipments with another customer. Looking ahead to the fiscal first quarter of 2018, we expect new program ramps to start to stabilize, our anticipation is a mid-single-digit increase in our Communications sector for the fiscal first quarter. Looking at fiscal 2018, we currently expect the new program ramps enable double-digit year-over-year growth for the Communications sector.

Our Aerospace and Defense sector was down 1% in the fiscal fourth quarter, a result that was below our expectations of a mid-single-digit increase. A new program ramp delayed with 1 customer and end market demand with another customer, was the main result -- the main reasons for the soft result. Due to end market weakness with several customers at the end of calendar 2017, we expect a low single-digit decline in our Aerospace and Defense sector for the first fiscal quarter of 2018. However, we anticipate that our recent new business wins will drive double-digit year-over-year growth for the sector in fiscal 2018.

Please advance to Slide 8 for an overview of our manufacturing wins. During the fiscal fourth quarter, we won 34 new programs that we expect to generate $172 million in the annualized revenue, when fully ramped in production. Our trailing fourth quarter manufacturing wins as shown by the red bars, is at $811 million. This number highlights the strong wins performance that team has had throughout fiscal 2017, a result in the wins momentum of 32%, well above our 25% target. As we look to fiscal 2018, we expect strong wins in the fiscal first quarter to keep the wins momentum at a very healthy level .

Please advance to Slide 9 for further insight into the wins performance by region. The wins are balanced across all 3 of our regions. Our APAC strong execution enabled them to grow market share with our existing customer base in the fiscal fourth quarter. While investments in the EMEA region continues to attract new customers. Our Americas region, wins were a combination of mark-to-market share gain with existing customers as well as addition of new customers. Our ability to consistently deliver a differentiated strategy from a global footprint, continues to attract new customers.

Please advance to Slide 10 for further insight into the wins performance by market sector.

The Healthcare/Life Sciences team led these sectors with $73 million and manufacturing wins, and a majority of the $28 million in engineering wins. Included in the manufacturing wins are 2 significant opportunities with existing customers, including a single-use medical device program. The Aerospace and Defense sector's wins included additional rewards from 2 EMEA based customers, due to our ability to deliver a unique value proposition within the region. The industrial/commercial sector added 2 new customers to the Americas region, while the Communications team expanded our relationship with customers in both the Americas and APAC regions. Looking at the fiscal first quarter of 2018, we expect strong wins from the Healthcare/Life Sciences team to keep our momentum healthy as we start fiscal 2018.

Please advance to Slide 11. Despite the strong wins performance in fiscal 2017, we entered fiscal 2018 with an exceptionally strong funnel in excess of $3 billion. Our focus on operational excellence and customer service excellence is being rewarded by customer, providing us opportunities to expand market share. Even though, the Healthcare/Life Sciences team continues to close opportunities, their funnel continues to grow. Included in the opportunities of Healthcare/Life Sciences funnel, our significant outsourcing projects, that 2 of our customers are considering. The Industrial/Commercial funnel remained healthy, while the Communications team was successful in adding meaningful opportunities to its funnel with new customers. The Aerospace and Defense teams strong wins over the past 2 quarters has impacted their funnel and they are focused on rebuilding it.

Next I'd like to turn the operating performance on Slide 12. Our revenue in the fiscal fourth quarter finished in our guidance range at $670 million. As Todd highlighted, at midpoint of our guidance, we would have achieved record revenue for the fiscal first quarter. Our focus on low-to-mid volume high complex programs is being successful. Our sector teams have won several complex programs in fiscal 2017 that will provide revenue growth in fiscal 2018. We will continue to invest in the resource as necessary as program ramps that are driving the revenue growth. In addition, the teams are committed to building a high level of customer service while delivering strong operating margins. As a result, we are guiding operating margins in the range of 4.6% to 5% for the fiscal first quarter 2018.

A few final comments. Fiscal 2017 was a good year. We do have a consistent operating margins at or above our target range while successfully reforming several new foreigner instructions. Simultaneously, we received strong Net Promoter Scores, and captured market share with several key customers. With the revenue guidance at a record level for fiscal -- for first fiscal quarter of 2018, and our focus on continuous improvement, we are confident that our fiscal 2017 efforts will enable a strong fiscal 2018. I will now turn the call to Pat for additional and detailed review of our financial performance.

Patrick John Jermain - *Plexus Corp. - Senior VP & CFO*

Thank you, Steve, and good morning, everyone. Our fiscal fourth quarter results are summarized on Slide 13. Fourth quarter revenue of $670 million was within guidance while gross margin of 9.9% was above the top end of our guidance. Gross margin benefited from the better mix of revenue, as we experienced a higher proportion of labor content within products. Also, last quarter, I mentioned that we expected to see a margin drag in the fiscal fourth quarter from ramping an aftermarket services program. The margin impact was less than expected as a result of the customer delaying the program transition by a few months. Selling and administrative expense of approximately $32.5 million was in line with our quarterly guidance, as a percentage of revenue, SG&A was 4.9%, a sequential improvement of 20 basis points. As a result of the higher gross margin and improved SG&A leverage, operating margin of 5.1% was at the high-end of our guidance, included in this quarter's operating margin, was approximately 75 basis point. A stock-based compensation expense in line with our quarterly guidance.

As Todd mentioned, we are pleased with the fiscal 2017 operating margin of 5.1%. The improvement compared to fiscal 2016 demonstrates our commitment to driving labor and supply-chain productivity improvements. Fourth quarter GAAP diluted EPS of $0.84 was slightly above the midpoint of our guidance. Higher operating profit and a slightly lower tax rate contributed to the results above the midpoint.

Turning now to the balance sheet on Slide 14. Return on invested capital was 16.2% for fiscal 2017, reflecting an economic return of 5.7%, based on our weighted average, cost of capital of 10.5%. Contributing to the higher return compared to the prior year was a combination of improved earnings and a slight reduction to our average invested capital. Each year, we recalculate our weighted average cost of capital by using a consistent methodology. With less volatility in our stock price over the past few years, our cost of capital for fiscal 2018 will be reduced from 10.5% to 9.5%. During the quarter, we generated approximately $50 million in cash from operations and spent $14 million on capital expenditures, resulting in free cash flow of approximately $36 million. For the fiscal year, we generated $172 million in cash from operations and spent $39 million on capital expenditures, resulting in free cash flow of a $133 million, a nice improvement from the free cash flow in fiscal 2016 of $97 million.

During the quarter, we purchased approximately 198,000 of our shares for $10.3 million, at a weighted average price of $51.98 per share. For fiscal 2017, we refer just $34 million of our shares at an average price of $52.08 per share. Shareholder distributions for fiscal 2017 represented approximately 25% of our global free cash flow. We distributed all free cash flow generated in the U.S. We ended the year with a strong balance sheet. Cash total of $569 million, up from $433 million in fiscal 2016. It's important to note that more than 95% of our cash resides offshore. Total balance sheet debt was approximately $313 million with $287 million classified as short-term debt. We're currently reviewing alternatives for refinancing the $175 million of short-term debt that matures next June. Our debt-to-EBITDA ratio was a healthy 1.6x at our fiscal year-end. Cash cycle at the end of the fourth quarter was 70 days, a sequential improvement of 6 days.

Please turn to Slide 15 for details on our cash cycle. Sequentially, inventory dollars remained relatively consistent, while days in inventory improved by 8 days. Better inventory management, along with higher revenue compared to the prior quarter, drove the improvement. Although we are mindful to maintain the correct inventory necessary to achieve customer service excellence, we believe there is opportunity for further improvement to inventory days in fiscal 2018. Days in receivables were 50 days, sequentially up 3 days, primarily due to the timing of customer shipments at quarter-end. Sequentially, payable days were down 2 days due to reduced purchasing activity. Customer deposits increased by 3 days, as we work with our customers to cover higher inventory balances. As Todd has already provided the revenue and EPS guidance for the fiscal first quarter, I will share some additional details, which are summarized on Slide 16.

Fiscal first quarter gross margin is expected to be in the range of 9.3% to 9.7%. The midpoint of this guidance suggests a sequential decrease of 40 basis points. Product mix and ramping costs associated with the previously mentioned aftermarket services program, are contributing to the margin reduction. Also, we expect higher incentive compensation expense based on an improved revenue outlook for fiscal 2018. We expect SG&A expense to be consistent with our spending in the fiscal fourth quarter in the range of $31.5 million to $32.5 million. At the midpoint of our revenue guidance, anticipated SG&A would be 4.7% of revenue, sequentially down 20 basis points. Fiscal first quarter operating margin is expected to be in the range of 4.6% to 5%, which includes approximately 60 basis points of stock-based compensation expense. A few other notes depreciation expense for the fiscal first quarter, is expected to be approximately $12 million, consistent with the fiscal fourth quarter. We estimate an effective tax rate of 8% to 10% for fiscal first quarter as well as for the full year. Our expectation for the balance sheet is a sequential improvement in working capital dollars. Cash cycle days are expected to be in the range of 68 to 72 days for the fiscal first quarter. As a midpoint of this guidance, cash cycle would be consistent with the fiscal fourth quarter. We expect free cash flow up to $10 million for the fiscal first quarter and to exceed $100 million for the full year. Fiscal 2018 capital spending is anticipated to be in the range of $80 million to $90 million, which includes a facility expansion, currently under consideration. 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) Our first question comes from Sherri Scribner with Deutsche Bank .

Sherri Ann Scribner - *Deutsche Bank AG, Research Division - Director and Senior Research Analyst*

Thank you for the additional detail on the full year guidance. It looks like you guys are expecting strong guidance in 3 of your 4 segments with double-digit year-over-year growth, in 3 of the 4 segments. I guess, I'm trying to understand what your expectations would be for the linearity through the year for the first quarter? It looks like you're guiding somewhere around a little less than 8% growth, so suggest that there's some acceleration in growth as we move through the year. There may be some additional detail on how we get to that double-digit growth at least in those 3 segments for the full year would be helpful?

Todd P. Kelsey - *Plexus Corp. - President, CEO & Director*

Sure. So Sherry, this Todd, good morning. So with regard to the growth and maybe just to give you a little bit color and you're accurate that we are expecting double-digit growth for the year, and we talked about that last quarter. And I would say that our outlook continues to be very much the same if anything, we're seeing maybe slight modest increases in end markets at this point. Nothing significant, but a slight increases in the end market. As we look at the quarter-over-quarter performance, of course, we saw really aggressive growth in Q4 of fiscal '17. We expect to maintain sequential growth throughout fiscal '18 each quarter. So that's the way at least as we see it right now. We're certainly cognizant of the street model and the revenue slope there and we think that's reasonable for now. And certainly, the wins and the funnel that we've had support rapid growth, as Steve mentioned, we have transitions that are progressing across the business right now that will -- should continue to fuel strong growth throughout fiscal '18 and into fiscal '19. So as we look at maybe from a sector basis, again, Healthcare/Life Sciences, Communications and Aerospace and Defense, all benefiting from new program ramps. And we expect solid double-digit growth in each one of those sectors. Industrial/Commercial, a little bit more challenged, what we're seeing in that space as we have a couple of large customers that are -- that have a tough comparable to last year that are down a little bit in demand. And semi capital, we're seeing strength in the first half of the year, the visibility as we look to the second half of our fiscal year, is necessarily know -- they know. So we're kind of looking at that is approximately a flat sector at this point. But I think, it's subject to change depending on whose semi cap (inaudible) you believe.

Sherri Ann Scribner - *Deutsche Bank AG, Research Division - Director and Senior Research Analyst*

Okay, that's perfect. Thank you, and then just as a follow-up, in terms of the margin, you guys are doing an excellent job on your operating margins. At the high-end of your range, above your target range. How should we think about margins for the full year? I assume, you still want to stand out that your typical 4.7% to 5% range, but should we assume you'll be at the higher end of that? Or there are more investments that need to happen to support that growth for the year?

Patrick John Jermain - *Plexus Corp. - Senior VP & CFO*

Yes. We can grow, Sheri, we will see investment in transition cost that will keep us within that range. And I think being at that midpoint is probably reasonable. Both, Todd and I mentioned, there will be additional incentive compensation associated with the higher revenue, which is something we didn't see in fiscal '17 with a flat year. So we do have that hurdle to get over in fiscal '18. So I think being kind of in the middle of that range is reasonable.

Operator

Our next question comes from Shawn Harrison from Longbow Research.

Shawn Matthew Harrison - *Longbow Research LLC - Senior Research Analyst*

First of all, I would say sorry about Aeron Rogers.

Todd P. Kelsey - *Plexus Corp. - President, CEO & Director*

We're still in mourning here, denial.

Shawn Matthew Harrison - *Longbow Research LLC - Senior Research Analyst*

I've another topic. I guess, first of all, just on that capacity addition, I'm guessing that it's targeted towards Mexico, but maybe you can talk about the timeline of that coming on, and if there's any potential margin drag this year as new capacity typically, does that occur with new capacity? Is that a more of fiscal '19 potential dynamic?

Steven J. Frisch - *Plexus Corp. - Executive VP & COO*

This is Steve. I'll take that one. As we look to the long-range planning, any facility and capacity that would add, I mean, we're really looking at kind of F'19 kind of where we need the capacity. So we're looking across the board, we haven't announced and aren't going to announce exactly what reasons we're looking at, in terms of where we're going to add it. Our strategy though, is to add capacity near the facilities that we have. So we're not looking for a new region or a new kind of address, really going to stay focused in the region that we're at. And anything that we would do is a 9- to 18-month, really kind of before comes on online from a capacity standpoint. So it's really, really focused on the fiscal '19 needs.

Sherri Ann Scribner - *Deutsche Bank AG, Research Division - Director and Senior Research Analyst*

Okay, that's helpful. And then secondly, I just wanted to get into kind of -- I know its been a challenge now from -- better from last year and maybe some years before, but maybe just into the quarter volatility, pull-ins and push-outs have some delays in program ramps. Is there anything you can do internally to maybe manage that a little bit better within that 90-day window, because other than -- that this quarter, you guys put up hell of a results, any commentary on that would be helpful?

Todd P. Kelsey - *Plexus Corp. - President, CEO & Director*

Yes. I think if we look at inter-quarter volatility, I know there was a lot of volatility at times last year and the year prior. If I look at this quarter, as far as from a demand standpoint, there really wasn't the volatility of other quarters. Now I know, we're a little bit below midpoint from a revenue standpoint. And I know, certainly the -- our communications results caught attention because we had a guide of about 50% up, and we ended up in the 40s, which was still good, but not quite what we had thought. What I'd say about that is, is we talked about as we came into the quarter that we had a number of very aggressive ramps that were occurring in the quarter. And there's always a little bit of risk and uncertainty, when you're ramping to that magnitude, because you don't know what issues are going to come up with respect to manufacturability, manufacturing processes, test -- test capacity, what have you. So what I would say is, we work through those issues very collaboratively with our customers throughout the quarter, but it comes under a time issue. And we I only have so much time before the quarter ends, and we ran out of the capacity late in the quarter. So we ended up a little bit short on capacity, a little bit short on revenue. We have since, we've worked through all the issues, but really that's what it kind of came down. So I wouldn't necessarily call it a demand situation, and I think we're in a much better position within that space as we look forward to, because we're really through the tough part of it.

Shawn Matthew Harrison - *Longbow Research LLC - Senior Research Analyst*

And kind of I know you wouldn't want to look a gift horse in the mouth in terms of big revenue ramps from product -- product launches in '18. But do you see any of those type of challenges, where you have a huge product, new product transitional or ramp coming along at some point in time '18, where you would have to manage through some of the dynamics you experienced this quarter?

Todd P. Kelsey - *Plexus Corp. - President, CEO & Director*

Not of this magnitude. There is certainly a number of product ramps that are going on, but I would say, they're at a little bit more measured pace or at least planned to be a little bit more measured pace than what we had going on into the Communications sector.

Operator

Our next question comes from Jim Suva with Citi.

Jim Suva - *Citigroup Inc, Research Division - Director*

Can you comment a little bit about the dollar wins -- dollar amount of business wins? It looks like they're kind of down year-over-year. Are you being more selective? Or some wins pushed out? Do have some internal personnel there? It kind of looks like maybe my math is wrong, but it looks like they were down year-over-year and kind of the lowest level in the couple of years?

Todd P. Kelsey - *Plexus Corp. - President, CEO & Director*

Yes. I guess it depends on how you slice the data and look at it. Our trailing 4-quarters, as we exit this year's $811 million, our trailing 4 quarters as we exited the last year was $747 million. So it's definitely an uptick in terms of that and as you see the wins momentum, that's kind of self-explanatory, that that's happening. So from that standpoint, I wouldn't say that, from my perspective, wins are not trailing down. If anything, we've seen momentum trailing, forecasting going up. And then I think, we talked about this in the past, I think our key focus here is on trailing 4 quarters. We do not focus on any individual quarter. A fundamental belief that we drive along behavior with our team and they are trying to meet a metric that quite frankly doesn't somewhat quarter-over-quarter standpoint, it's not that significant. It's really the trailing 4-quarter numbers. So it's a little bit lighter quarter, this quarter. Somethings slid to the right. We expect a strong quarter in fiscal Q -- in first fiscal quarter, so I don't want to reach too much into other than that.

Jim Suva - *Citigroup Inc, Research Division - Director*

Okay. Yes, I was looking at just the September quarter results, and you're just saying that more accurate ways to look at is a multi-quarter basis.

Patrick John Jermain - *Plexus Corp. - Senior VP & CFO*

Okay, go ahead?

Steven J. Frisch - *Plexus Corp. - Executive VP & COO*

Yes. Year-over-year in terms of quarter-to-quarter is a tough comparable for me. Even quarter-to-quarter within -- a sequential quarter is a tough comparison for me. So I'm really focused on the trailing 4 quarters.

Jim Suva - *Citigroup Inc, Research Division - Director*

Okay. So basically no changes in those staffs, so the way go-to-market, and I think you've mentioned, you expected it to improve in fiscal Q1, is that correct?

Todd P. Kelsey - *Plexus Corp. - President, CEO & Director*

Yes, if anything, I feel really good and confident about the changes -- any changes that we are making within our staff. We've added some great talent in the new business development front over the course of the last fiscal year. I think that's showing up in the funnel -- in the funnel size. So if you went back about 6 quarters, we've been running a funnel for a long period of time around $2 billion. And now the last several quarters, we've been writing that $3 billion neighborhood every quarter. So with the bigger funnel of good opportunities comes more wins, it flows right through us. So we feel really good about what's happening within the business development cycle. We just had a couple of things that we initially might have thought we'd closed in Q4 that pushed into Q1. So as Steve mentioned, we expect Q1 to be a good number.

Operator

Our following question comes from Paul Coster from JP Morgan.

Paul Coster - *JP Morgan Chase & Co, Research Division - Senior Analyst, Alternative Energy, and Applied and Emerging Technologies*

Just going back to the Comm segment, it's obviously, the more volatile or has been one of the more volatile segments. Is there something about the nature of the business that you see this coming year that makes it less kind of risky, I suppose? And to what extent is the customer concentration risk in that 1 segment?

Steven J. Frisch - *Plexus Corp. - Executive VP & COO*

This is Steve, I'll talk about the full year first. There's nothing new or experimental that we see happening in fiscal '18, in terms of any volatility. This program -- these programs and this program ramps that we've been talking about, they ramps here in the fiscal fourth quarter, they stabilized here in Q1. We anticipate them to be stable throughout the year. So from that standpoint, we see nothing extraordinary. In terms of concentration, we've talked about the fact that we purposefully made our shift more towards Communications customers as opposed to networking. So our concentration is really more focused towards the Communications side of the equation instead of rebranding in that sector. And then, specifically within that sector, we do talk about our 10% of customers -- we do have one 10% customer in that sector, so there's a little concentration there.

Paul Coster - *JP Morgan Chase & Co, Research Division - Senior Analyst, Alternative Energy, and Applied and Emerging Technologies*

Okay, and then, sorry yes.

Todd P. Kelsey - *Plexus Corp. - President, CEO & Director*

Yes. One thing I would just add on that, Paul, as I mean, there certainly is a percentage of the sector revenue, 1 customer makes a good piece of it, certainly less than half of it. But a good piece of it, but what I would add is that, the relationship with the customer is really strong and go across multiple levels of the organization. So from a standpoint -- and again, when we think about risk and corporate risk, we look at it more from the size of the customer within the corporate revenue and the health relationship as opposed to what does it look like within the sector. And we feel pretty good about that. I mean, one of the things maybe just a preview of something that will be in 10-K, as we kind of highlighted that. And we're likely to be down on 10% customers this year. And we only have one ten percent customer that will show up in the 10-K of this year.

Paul Coster - *JP Morgan Chase & Co, Research Division - Senior Analyst, Alternative Energy, and Applied and Emerging Technologies*

Okay, and then 1 last question on the Aerospace Defense side. It seems like you had some weak demand from 1 customer this last quarter, but you're seeing through that into strength of the remainder of the year. Can you just talk us through that? I mean,was that 1 customer material, apparently they were, and what gives you confidence that demand for their product is coming back or does that not match with the full year guidance?

Todd P. Kelsey - *Plexus Corp. - President, CEO & Director*

Yes. So the demand that we've been talking about is, 1 demand is new program ramps. And so we won some significant opportunities are ramping, they slid to right, just a little bit, and so we don't anticipate that, that's going to continue to happen and give us the confidence for double-digit growth as we go into fiscal '18. There are a couple of other new programs that we've ramped within the sector, one of them really more from an end market demand standpoint, just slid to the right as well. And so really no significant issues associated any particular customers within that sector. We do see a little bit of end market softness here at the end of the year, but we anticipate that will basically be modest growth in increasing as we go through fiscal '18 with the new program ramps. We did have 1 customer in the sector, that failed to win the next-generation platform, which is brought down their revenue forecast, the new program ramp a little bit, again, it's not significant in terms of the overall scheme of sector.

Operator

Next question comes from Mitchell Steves from RBC Capital Markets.

Mitchell Toshiro Steves - *RBC Capital Markets, LLC, Research Division - Analyst*

So I actually had 2, so first on the margin front, you mentioned kind of aftermarket services impacting the gross margin like, can you just break that out in terms of what type of magnitude it's having in that quarter?

Patrick John Jermain - *Plexus Corp. - Senior VP & CFO*

Yes, Mitch, this is Pat. So originally for -- I'll talk about Q4 and Q1. Originally in Q4, we expected to see about a 10 basis point impact on margin, and it was just very minimal for Q4, and so that's shifting now to our fiscal first quarter. And I'd say, again, it's about 10 basis point impact for us, as we add labor and advance the revenue coming through.

Mitchell Toshiro Steves - *RBC Capital Markets, LLC, Research Division - Analyst*

Got it. Okay, and then, secondly kind of turning back to customer concentration you guys have, you guys still kind of have the same kind of top 3 customers you guys had last year? Working as a closure?

Patrick John Jermain - *Plexus Corp. - Senior VP & CFO*

Yes. I believe, it be closed, but when we have a couple of other customers that are reasonable in size as well too. I'm just going to do a quick check here, Mitch.

Todd P. Kelsey - *Plexus Corp. - President, CEO & Director*

Yes, pretty close, pretty close, the top 5 have pretty much stayed the same with a little movement among those top 5.

Operator

We have no further questions at this time. I will now turn the call over to Todd Kelsey for final remarks.

Todd P. Kelsey - *Plexus Corp. - President, CEO & Director*

All right, thank you, Sylvia. So in closing, I want to take just a moment to thank more than 16,000 Plexus team members that we have globally. I'd like to comment that you've delivered an excellent fiscal 2017. You made great strides in better servicing our customers, delivered strong profitability and also positioned Plexus for future growth. And the accomplishments that we had in fiscal 2017 leave me optimistic for what we'll accomplished in 2018. And finally, I want to thank everybody who joined us on our call today. We certainly appreciate your support and your interest in Plexus. Thank you.

Operator

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