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EDITED TRANSCRIPT

PLXS - Q3 2018 Plexus Corp Earnings Call

EVENT DATE/TIME: JULY 19, 2018 / 12:30PM GMT

OVERVIEW:

Co. reported 3Q18 revenue of $726m and GAAP EPS of $0.79. Expects 4Q18 revenue to be $735-775m and GAAP diluted EPS to be $0.82-0.92.

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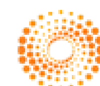

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PRESENTATION

Operator

Good morning and welcome to the Plexus Corp. conference call regarding its fiscal third-quarter 2018 earnings announcement. My name is John and I will be your operator for today's call. (Operator Instructions). The conference call scheduled to last approximately one hour. Please note that this conference is being recorded. I would now like to turn the call over to Ms. Susan Hanson, Plexus' Senior Director of Communications and Investor Relations. Susan?

Susan Hanson - *Plexus Corp. - Senior Director - Communications & IR*

Thank you, John. 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.

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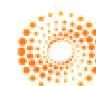

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We encourage participants in the call this morning to access the live webcast and supporting materials at Plexus' website at WWW.plexus.com by clicking on Investor Relations at the top of that page.

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

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

Thank you, Susan, and good morning, everyone. Please begin with our fiscal third-quarter results on slide 3. After the close of the market yesterday we reported results for our fiscal third quarter of 2018. We finished with record revenue of $726 million. The result was approximately a 17% increase from the comparable quarter last year and a 4% increase from the second fiscal quarter of 2018.

We achieved strong growth from our Healthcare/Life Sciences, Communications and Aerospace and Defense market sectors with Communications strengthening significantly within the quarter. We were able to achieve these results despite a highly constrained supply chain market that is limiting revenue upside ability.

We produced GAAP EPS of $0.79 for the fiscal third-quarter, including $0.14 of stock-based compensation expense, a result that was slightly below the midpoint of our guidance range. Our operating margin of 4.5%, while still best among our peer group, was below our expectations for the quarter. Product mix was most significant factor that contributed to the lower than expected margins.

We delivered higher revenue than anticipated associated with new program ramps; a critical stage of the product lifecycle but requires increased investment. Concurrently, volumes of more mature higher-margin products were slightly down in the quarter.

In addition, we experienced operational inefficiencies due to supply chain constraints as we continue to prioritize actions and investments towards those necessary to drive customer success. We expect the margin pressure to be temporary as the products become more mature and we gain efficiencies.

Return on invested capital was a healthy 15.9%. This represents an economic return of 640 basis points above our weighted average cost of capital, well above our 500 basis point goal.

Next I will highlight a few significant accomplishments within the fiscal third quarter. Our teams delivered quarterly manufacturing wins of $202 million, another solid outcome positioning us for continued growth. In addition, our funnel of qualified manufacturing opportunities increased over the prior quarter to $2.7 billion.

Our exclusive focus on mid to low volume high complexity markets and passion for delivering customer service excellence is resonating with current and prospective customers. Further, our teams booked a record $38 million of engineering solutions wins and increased the engineering funnel to record levels. We are optimistic we will continue to excel with this differentiated service offering as we develop leading-edge products which will transition into Plexus manufacturing.

We continue to make good progress in our revised capital allocation strategy initially announced on February 20, 2018. As of the end of the fiscal third-quarter, we have repatriated over $380 million from the APAC region. This cash has been used to fund investments in facilities and working capital, pay down debt and repurchase shares.

During the fiscal third quarter we refinanced $150 million of the maturing $175 million of senior notes at a reduced interest rate. In addition, we repurchased approximately $57 million of our stock representing nearly 1 million shares. We anticipate the reduced share count and lower interest expense will contribute to meaningful EPS leverage in fiscal 2019.

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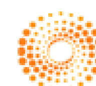

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Advancing to our guidance for the fiscal fourth quarter of 2018 on slide 4, we expect our revenue growth trajectory to continue due to our strong wins performance and improved end markets. As a result we are establishing revenue guidance of $735 million to $775 million.

The midpoint of our guidance range suggests we'll deliver approximately 4% sequential revenue growth and greater than 12% revenue growth from the fiscal fourth quarter of 2017.

Further, performance within this guidance range implies our fiscal 2018 revenue will exceed our enduring revenue growth goal of 12% while achieving the fifth consecutive quarter of record revenue. Within the quarter we expect to see solid sequential growth in Healthcare/Life Sciences, Industrial/Commercial and Aerospace and Defense sectors.

We anticipate improvements in operating margins as we gain operating leverage while still battling the impacts of the constrained supply chain. Consistent with these expectations we are guiding fiscal fourth-quarter 2018 GAAP diluted EPS of $0.82 to $0.92. The EPS guide includes $0.14 of stock-based compensation expense. With performance in this range we would expect to deliver record quarterly operating profit exceeding our previous high of nearly $34 million.

Finally, a few comments regarding fiscal 2019. While uncertainty exists in the geopolitical environment and the electronic supply chain, our current forecast displays meaningful revenue growth in the coming year. Our confidence is buoyed as a result of our strong wins performance, solid funnel, and exceptional customer satisfaction in addition to the improved end markets.

Further, we expect our operating margin performance will be within our target range of 4.7% to 5% in the fiscal year as we gain operating and fixed costs leverage as new programs fully ramp into production. In our current view this benefit could exceed 30 basis points.

We anticipate that the strong growth and improved operating efficiency in conjunction with our share repurchase program will result in significant EPS leverage in fiscal 2019. 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 & COO*

Thank you, Todd. Good morning. Please advance to slide 5 for a review of our market sector performance during the third quarter of 2018, as well as our expectations for the sectors in the fiscal fourth quarter of 2018.

Our Healthcare/Life Sciences sector was up 7% in the fiscal third quarter, which was in line with our expectations of a mid-single-digit increase. New program ramps were the main contributors of the growth. Those ramps are continuing and the end market acceptance for many of them is robust.

As a result we anticipate a mid-single-digit revenue increase in our Healthcare/Life Sciences sector in the fiscal fourth quarter. Achieving this level of growth in the final quarter of fiscal 2018 would result in an outstanding full-year growth rate in the range of 20%.

Our Industrial/Commercial sector was down 7% sequentially in the fiscal third quarter, which was in line with our expectations of a mid-single-digit decrease. As expected, several of our semiconductor capital equipment customers who had an exceptionally strong fiscal second-quarter returned to their previous run rates.

As we look towards the fiscal fourth quarter we see good demand for many of our top customers in the semiconductor capital equipment, oil and gas, and automated retail subsectors. As a result we anticipate a high single-digit increase in our Industrial/Commercial sector in the fiscal fourth quarter resulting in a mid-teens increase for the full fiscal year of 2018.

Our Communications sector was up 21% sequentially in the fiscal third quarter of 2018. This result was above our expectations of a low double-digit increase. Robust demand from new program ramps was the reason for the stronger than anticipated results. Looking ahead to the fiscal fourth

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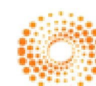

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quarter we expect the strong demand for the new programs to continue; however, upside demand is being muted by component availability. As a result we anticipate revenues to be flat in our Communications sector for the fourth fiscal quarter and the full fiscal year of 2018.

Our Aerospace and Defense sector was up 4% in the fiscal third quarter, a result that was below our expectations of a mid-teens increase. A regulatory approval delay with one program and technical delays with a program ramp contributed to the lower revenue. As we look towards the fiscal fourth quarter, we expect that modest strength in the end markets and new program ramps will result in a mid-single-digit increase for our Aerospace and Defense sector. Achieving this level of revenue growth in the final quarter would result in double-digit annual growth for fiscal 2018.

Please advanced to slide 6 for an overview of the wins performance for the fiscal third quarter. We won 45 new manufacturing programs that we expect to generate $202 million in annualized revenue when fully ramped in production. Our trailing four quarter manufacturing wins, as shown by the red bars, is at $828 million. The wins momentum of 30% is well above our 25% target and provides the fuel for growth in fiscal 2019.

In addition, our Engineering Solutions group had record wins of $38 million in the fiscal third quarter. The robust Engineering wins is enabling a strong finish to fiscal 2018 and providing a healthy backlog of higher margin design projects for the beginning of fiscal 2019.

Please advance to slide 7 for further insight into the wins performance by region. Our APAC had strong manufacturing wins of $117 million. Included in the wins are two new meaningful Healthcare/Life Sciences programs. The Americas region had $78 million of new manufacturing wins in the fiscal third quarter. This solid result is well aligned to our investment strategy. Approximately 50% of the wins are targeted to our operations in Guadalajara and they include a strategic new opportunity from one of our Industrial/Commercial customers.

The EMEA region's manufacturing wins were low this quarter. With revenue growth projected at 50% in fiscal 2018, the region has been focusing on delivering customer service excellence and operational excellence as they are the keys for long-term success. However, we recognize the need to expand the customer base and the addition of the new Aerospace and Defense customer in the fiscal third quarter for the EMEA region is the start.

Please advance to slide 8 for further insight into the wins performance by market sector. The Industrial/Commercial sector generated strong wins of $96 million in the fiscal third quarter. The wins were mainly from expansion with existing customers. The Healthcare/Life Sciences team produced $54 million in manufacturing wins in the fiscal third quarter.

In addition to market share gains with several existing customers, the team won a program from a new strategic customer. Our new Healthcare/Life Science facility in Penang, Malaysia was a key element of securing that win.

Although the Communications sector and Aerospace and Defense sectors' wins were lighter than last quarter, each team closed key opportunities. The Communications team won next generation products from two existing customers, while the aerospace and defense team won programs from three new customers. All of these wins come with the potential for additional opportunities.

Please advance to slide 9. We finished the fiscal third quarter with a funnel of $2.7 billion of qualified manufacturing opportunities. The demand in the Healthcare/Life Sciences sector continues to be robust. Their funnel of qualified manufacturing opportunities is very strong at $1.4 billion. In addition, new product development opportunities for our engineering solutions team from the sector has been steadily increasing, which is a significant catalyst for future growth.

The Aerospace and Defense sector has seen increased requests from current customers. As a result their funnel jumped $81 million in the fiscal third quarter. The Communications sector funnel also expanded within the quarter, $155 million in opportunities mainly from potential new customers were added. Finally, the funnel in the Industrial/Commercial sector dipped as a result of strong wins performance. However, the pipeline of leads for the sector grew within the quarter.

Next I would like to turn to operating performance on slide 10. Our revenue in the fiscal third quarter finished at a record $726 million. As Todd shared with our fourth-quarter revenue guidance, we are expecting another quarter of strong sequential growth. Achieving this growth in a

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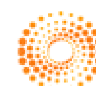

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constrained supply chain environment is a testament to the team's ability to deliver for our customers. However, as I mentioned in the call on the fiscal second quarter, supply constraints would challenge our ability to deliver increasing demand for some customers.

In the fiscal third quarter we had upside demand of an additional $10 million they could not be realized within the quarter due to component shortages.

As we aggressively work to meet our customers' increasing demand, two of our operational metrics are under pressure. First, our inventory levels are elevated. Second, our margins are pressured as we manage the changes in mix and the operational inefficiencies driven by the constrained component market. As a result we are guiding days of inventory at 103 days and operating margins in the range of 4.5% to 4.9% for fiscal fourth quarter of 2018.

A few final comments. The long-term success of Plexus is highly correlated to the ability to deliver for our customers. Our consistent quarterly revenue growth through fiscal 2018, as well as the strong wins performance that will drive fiscal 2019 revenue, are the result of sustained customer service excellence.

In the short-term we are aggressively working to ensure we maintain our customer service levels in a challenged supply chain market, but we are mindful of the impacts to our operational metrics. We are confident we have the right short-term balance. We are committed to servicing our customers and growing revenue while achieving margins in our 4.7% to 5% target range.

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

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

Thank you, Steve, and good morning, everyone. Our fiscal third-quarter results are summarized on slide 11. Record third-quarter revenue of $726 million was above the midpoint of our guidance while gross margin of 9.3% was slightly below guidance. As Steve mentioned earlier, gross margin was impacted by customer mix and labor inefficiencies experienced with the current supply chain environment.

Selling and administrative expense of approximately $35.4 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. Slightly lower SG&A dollars on higher revenue drove the sequential improvement. Operating margin of 4.5% was 10 basis points below guidance as a result of the lower gross margin.

Included in this quarter's operating margin is approximately 65 basis points of stock-based compensation expense, in line with our quarterly expectations. Other expense for the fiscal third quarter was $2.9 million, which was slightly favorable to our guidance primarily due to foreign exchange gains recognized during the quarter. GAAP diluted EPS of $0.79 was within guidance while diluted shares outstanding were slightly better than expected.

Turning now to the balance sheet on slide 12. Return on invested capital was 15.9% for the fiscal third quarter, 640 basis points above our weighted average cost of capital of 9.5%. Slightly higher earnings on a relatively consistent average invested capital base drove a 30 basis point improvement compared to the fiscal second quarter.

During the quarter we continued to execute on our capital allocation plan outlined earlier this year. In addition to the $280 million of offshore cash brought back last quarter we repatriated approximately $100 million from our APAC region during the fiscal third quarter. With a portion of the funds we purchased approximately 948,000 of our shares for $56.7 million at an average price of $59.81 per share.

Through the third quarter we have completed $132 million of the $150 million program authorized in 2016. We intend to purchase the remaining $18 million of shares through open market purchases over the next month. Once the 2016 authorization is complete we plan to begin purchasing shares under the new $200 million program authorized earlier this year.

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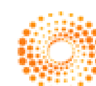

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In June we reduced our senior notes by $25 million after successfully refinancing $150 million of the maturing $175 million notes. The notes were refinanced under a combination of 7- and 10-year maturities both at interest rates favorable to the maturing notes.

For the fiscal third quarter we generated $39 million in cash from operations and spent $23 million on capital expenditures delivering free cash flow of approximately $16 million, slightly better than expected.

At the end of the fiscal third quarter our cash balance was $334 million with approximately 65% of the balance offshore, down from 80% at the end of last quarter. Sequentially our cash balance reduced approximately $70 million primarily due to increased share repurchases. Cash cycle at the end of the third quarter was 73 days, in line with our guidance and a sequential improvement of three days.

Please turn to slide 13 for details on our cash cycle. Sequentially days in inventory were up five days. Most of this increase was driven by a build in inventory as we ramp new programs and prepare for higher revenue anticipated in the fiscal fourth quarter. We are also experiencing longer lead times for certain components. In order to meet greater demand and maintain a high level of customer service we are procuring components earlier accepting that inventory dollars will be higher over the next few quarters.

Days in receivables were 48 days, sequentially improved by four days primarily due to the timing of customer payments as well as selling additional receivables under our customer factoring program. Fully offsetting the increase in inventory days was a five-day sequential improvement in payable days as we procure product for the anticipated record revenue in the fiscal fourth quarter. Customer deposit days were sequentially down one day.

As Todd has already provided the revenue and EPS guidance for the fiscal fourth quarter, I will share some additional details which are summarized on slide 14. Fiscal fourth-quarter gross margin is expected to be in the range of 9.2% to 9.5%. At the midpoint of this guidance, gross margin would be consistent with the fiscal third quarter.

For the fiscal fourth quarter we expect SG&A expense in the range of $35 million to $36 million. At the midpoint of our revenue guidance anticipated SG&A would be 4.7% of revenue, sequentially improved by 20 basis points. Fiscal fourth-quarter operating margin is expected to be in the range of 4.5% to 4.9%, which includes approximately 65 basis points of stock-based compensation expense.

A few other notes -- depreciation expense for the fiscal fourth quarter is expected to be approximately $13 million, slightly higher than the fiscal third quarter. Other expense for the fiscal fourth quarter is expected to be in the range of $3.2 million to $3.6 million. We estimate an effective tax rate of 10% to 12% for the fiscal fourth quarter. Excluding the impact of tax reform and the one-time employee bonus, the effective tax rate is expected to be 10% to 12% for the full year.

Given the anticipated share repurchase activity during the fiscal fourth quarter, we estimate diluted weighted average shares outstanding to be in the range of 33 million to 33.3 million shares. Our expectation for the balance sheet is for working capital dollars to increase as we support the anticipated higher revenue for the fiscal fourth quarter and as we begin procuring inventory for the first quarter of fiscal 2019.

Based on forecasted levels of revenue we expect the higher working capital result in cash cycle days of 75 to 79 days for the fiscal fourth quarter. At the midpoint of this guidance cash cycle days would increase by four days. Improvements in accounts receivable and inventory days are expected to be offset by lower payable days and customer deposits. Capital spending for fiscal 2018 is expected to be in the range of $70 million to $80 million, slightly below our previous estimates.

For fiscal 2018 we expect free cash flow to be slightly negative, which is lower than our previous estimate. A tightening supply chain environment and extended lead-times have required additional investments in inventory to satisfy customer demand. We are working closely with our customers to secure deposits and carrying cost to minimize our working capital investments.

More importantly, over the span of the last three months we have seen demand increase significantly, which is only partially reflected in the improved revenue guidance for the fiscal fourth quarter. We believe there are additional revenue opportunities if we are able to secure all the necessary components. Portions of the inventory needed are being procured now in case we are successful in shipping the additional demand.

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One final point: we have already started investing in working capital to support the strong demand we anticipate as we move into early fiscal 2019.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Shawn Harrison, Longbow Research.

Shawn Harrison - *Longbow Research - Analyst*

Striking a pretty bullish tone here in the demand environment as we exit the year. But if you could maybe speak on just the bullishness in terms of sectors into fiscal 2019 where you're most positive, maybe most conservative, as well as address the semi cap risk question. That seems not to be a risk right now for you, at least in the near-term.

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

Yes, sure, Shawn. I'll start with the discussion maybe on 2019 and the sectors. As we look to 2019, you're correct; we are striking a bullish tone from a growth standpoint. We are in the latter stages of our annual planning process, really just about ready to wrap that up, and it looks like 2019 will be another solid growth year. So we are optimistic there.

When we look across the sectors, the three more nontraditional sectors that we have, Healthcare/Life Sciences, Industrial/Commercial and Aerospace and Defense, are all showing strong growth for us in 2019 and really in the order of double-digit growth. And Communications we expect growth as well too.

So 2019 is shaping up to be a pretty good year for us, we believe, provided the macro environment stays in a similar situation to where it is. And I'm going to turn it over to Steve and he will provide some color on semiconductor capital equipment.

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

Sure. In regards to semiconductor capital, if we take a look at where we grew from 2017 to 2018, we're talking about the sector being in the mid-teens. The semiconductor subsector outgrew that.

As we look to -- going into 2019, Todd talked about some nice growth and quite frankly we expect that growth. We don't expect the semiconductor capital equipment to stay at the sector levels for growth. However, we do see, looking into the future here, growth for 2019 for the semiconductor capital.

It varies a little bit from front end to back end process by customer. There is a little bit of up and down here and there, but overall we are expecting growth for 2019 for the semiconductor capital equipment market, just not at the levels we saw from 2017 to 2018.

Shawn Harrison - *Longbow Research - Analyst*

Very helpful. As a follow-up, Todd, where you said 30 basis points of margin expansion year-over-year, how does that rollout? I know you're in the early stages of planning, but is that something we would see immediately step up in the first half of the year or is that more back half weighted?

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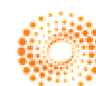

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And is there any way, Steve, you could detail -- I have a guess on what components are the issues, but maybe tell us the more problematic components you have in terms of just getting right now.

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

Sure, so I'll take the margin and then we'll remember to talk about components at the end. So, if we look at margins, maybe I'll just step back a bit and do a bit of a mental waterfall of what's been happening with our margins overall. So if we look at 2017, really strong margin year. Of course it was not a growth year at all.

And as we go into 2018 one of the big challenges we've been facing in 2018 with it being a strong growth year is incentive compensation, which has a 35 basis point impact to margins to go from essentially flat to exceeding our 12% enduring goal. So that is a pretty significant hurdle to overcome.

Now if we look at Q3 and some of the challenges we had in Q3, we thought were going to be a bit higher in operating margin. We really ran into a situation around our variable costs, call it labor and materials. And it came down to two issues, one being the supply chain constraints.

And you may ask, well, why do supply chain constraints impact margin. It causes you to be really inefficient, so you are building whenever you have parts. So you are stopping and starting, you are adding over time. Sometimes you have too much labor because you don't have enough parts. So it ends up being an issue and we estimate it at about 10 basis points. It's hard to quantify overall, but we think it's about 10 basis points.

The other issue was mix. And we said we had a mix issue where we shift more products that were in the process of ramping and we are seeing demand increases across our entire product portfolio, but we are in a better position to ship new products because you're pipelining materials ahead of time in anticipation of product ramps.

So when those upsides came we had good ability to be able to service the new programs that were lower margin because of the stage that they are in in their life cycle, and not the ones that are more mature and higher margin. So that became a little bit of a mix issue and we pegged that at about 20 basis points.

Now if we go to Q4, really what we see in Q4 is a leverage issue around our operating expenses, SG&A. So, we are predicting a 20 basis point improvement in SG&A strictly as a result of leverage. We are kind of downplaying the impact of getting better efficiencies in this variable cost structure at this point. And as we go into 2019, and really this could be as early as a Q1 type issue, we see fixed costs leverage again from the revenue expansion.

So when we look at it overall the fixed costs leverage could be on the order of 20 basis points, the SG&A on the order of 20 basis points. I called it 30, so if we hedge it even a little bit that gets me to the 30 number. And we haven't taken into account any improvement in the supply chain environment.

So we view them as a bit of -- a potentially conservative number, you never know how the market shapes out. So that's really the way we see the markets progressing as we move into 2019. So we believe we can have improvement into that target range really as early as Q1.

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

And just one thing I would add is Todd mentioned the impact of incentive compensation going from 2017 to 2018. As we go from 2018 to 2019 that stays pretty consistent, so we don't lose any leverage from that incentive compensation for 2019.

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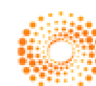

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Steve Frisch - *Plexus Corp. - EVP & COO*

And then the last part of your question, Shawn, on components, this is Steve, I will handle that one. Definitely being led by MLCCs, capacitors and some resistors. A little bit lesser effect memory and a few logic and discretes, but it's really the MLCCs that's been the most problematic for us.

Shawn Harrison - *Longbow Research - Analyst*

Great detail, everyone. Thank you.

Operator

Sherri Scribner, Deutsche Bank.

Sherri Scribner - *Deutsche Bank - Analyst*

I think last quarter when we talked about the supply issues you mentioned that you thought it continued into 2019. And I don't know if you talked about it -- I don't know if I missed it when you talked about it this quarter, but is that still your view? Do you think some of these supply chain issues continue into 2019 and how long?

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

I mean, right now it's into the foreseeable future. So certainly into 2019 it looks like it will continue. I don't know, Steve, if you want to add anything.

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

Yes, probably the best indication that we get is when you start looking at lead-times for components. When they start talking about things being in the allocation they just give you a lead time of a year. That's kind of just a default plug number which basically implies that you are in a constrained market and they are basically allocating.

And so, right now we see that happening into 2019 definitely on the MLCCs, maybe a little bit of improvement in a few of the others, but it definitely will be a 2019 challenge for us.

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

So, one of the things I want to add on this as well, Sherri, and really for everybody on the line here, is the impact of this. So, one of the things I want to make clear is we have not missed any committed deliveries. And so, we're not missing deliveries, but what it is causing us is that we have less flexibility to be able to upside when our customers drop in demand inside a lead-time, which they are in pretty robust markets right now as well.

So, we are seeing a lot of these upside requests and it's becoming more and more difficult to do that, unless there's been deposits in place and inventory staged and things such as that.

Sherri Scribner - *Deutsche Bank - Analyst*

Okay, that's helpful. And then I guess as we think about moving into fiscal 2019, and you mentioned you expect to see robust revenue growth. I guess I'm just curious what robust means, because if I look at the trailing 12-month wins and the funnel of business and the growth rates, those have slowed significantly, at least this quarter.

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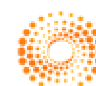

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And so, versus the double-digit growth you were seeing in new wins and trailing 12-month wins in fiscal 2017, those are more sort of like single digit. So, I guess I'm trying to understand how should we think about the new wins momentum slowing and how that impacts the ability to grow sales robustly in 2019.

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

Yes, this is Steve, I will address that. I think in terms of your message about slowing trailing four quarters, I mean if you go back to Q1 we were $794 million, popped up to $847 million in Q2 and then $828 million in Q3. So the trend of trailing four quarters has actually been flat to slightly up.

I think as you look at it as a percentage of revenue that's where, as we see the significant revenue growth, obviously that metric is going to come under pressure. And we are very conscious of the fact that to drive growth when you start looking beyond 2019 and into 2020 that our teams need to step it up and we've been making the investments and doing the right things there.

So, we believe that the things that have been happening through 2018 are going to enable the 2019 growth that we want. But as we grow obviously we have to win more, so we recognize that.

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

The thing I would add too, Sherri, is that basically the revenue that supports F19 is for the most part already won. So these are already reflected in previous quarters' wins. So again, if you start to think about, well, what would 2020 look like, that's where we need to continue to increase the wins through F19 to support the fiscal 2020 growth.

But given the strong wins we had in 2018, we are positioned well, particularly as we look at the start of the fiscal year, to continue the growth trend we are on. And it really supports double-digit growth if the back half holds up.

Sherri Scribner - *Deutsche Bank - Analyst*

Okay great. Thanks so much.

Operator

Sean Hannan, Needham & Company.

Sean Hannan - *Needham & Company - Analyst*

Yes, good morning. Thanks for taking the question here and actually to see if I could follow up on some of that commentary around F19 and the wins. Now, if I look at the trailing 12 months and I think about that 25 percentage type of bogie in order to drive a double-digit top-line number further on down the road, you've been well above that pretty consistently.

So, just trying to gauge a little bit better here, even if we annualize the $202 million from this quarter, that still would be -- I think it's like 29.4%. Are we positioned perhaps for double-digit growth again in fiscal 2019? That's ultimately the question.

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

I guess short answer is we believe so given our current view in the current environment. We believe so. Again, a lot of things could change, but we believe we are set up reasonably well for that given the wins and the way our forecast is looking, our annual plan is looking.

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It looks a lot -- it looks very similar -- I mean, right now our plan from a revenue standpoint or from a growth standpoint, our 2019 plan looks pretty similar to what our 2018 plan looked like at the time.

Sean Hannan - *Needham & Company - Analyst*

Oh, that's great. That's great to hear. All right. And then shifting over to components, sorry to beat a dead horse here. Is there anything unique there for your builds that might be different versus what your peers are seeing? Or is this all very consistent with what we've been seeing in the broader press in terms of some of these shortages?

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

This is Steve; I will answer that one. The components that we are facing is common across the industry a bit. There's nothing really significantly unique that we do versus others. That's actually the interesting part for this one is that these are typically the more -- well, they definitely are the lower expensive, more common parts, just the demand for them across the globe has gone up. So like everybody else, we are seeing the same issues.

Sean Hannan - *Needham & Company - Analyst*

Great, thanks so much for taking questions, folks.

Operator

Jim Suva, Citi.

Jim Suva - *Citigroup - Analyst*

Thanks very much and thank you so much for the details thus far. On the component shortages, are you able also to -- assuming that there's price increases for those components in tight supply -- able to fully pass on those costs to your customer?

Or are you locked into contract where you could be at margin risk where say you locked in at a price and the prices -- that were lower and now the prices are going higher? How should we think about potential future pricing and margins of this tight situation which appears to be a bit elongated?

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

Yes, in general the ability to pass on price increases or cost increases to our customers is there. The way it typically plays out is there's repricing periods that occur with different product lines, they might be quarterly or semiannually. And in general electronic components costs are going down. So the ones that are allocated as price increases, what that implies is you're just passing along less.

But yes -- the answer is yes, we are able to pass along any price increases that we see. There are also customers too that -- they are aware of the supply chain environment as well too. And they authorize us to immediately go out and buy components that potentially are higher than have been typical price and pay for it immediately.

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Jim Suva - *Citigroup - Analyst*

Okay. And then with that, does that then give you even more visibility for future production? Meaning the customer knows that these parts are in shortage, therefore they are willing to commit their capital also? So maybe are able to staff and your work shifts and your allocations of your SMT lines be even a little bit more efficient because you have even longer visibility time horizons?

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

So this is Steve, I will try to address that one. So first of all, we typically get upwards of 12 months of forecasts from our customers regardless of the environment we are in for components. And I think historically, pre these issues, customers felt comfortable dropping in demand on top of that 12-month forecast and we could react getting the components, and then when we had the capacity we could build it for them.

So, I think the question will be the change in forecasting from our customers are starting to realize that their forecasts maybe need to be a little bit tighter because we can't react as quickly. And so, I would expect the forecast -- the work on the forecast -- we are doing a lot of work with customers trying to forecast better given this environment.

That's probably the biggest change which ultimately will help us in terms of our planning. But right now with the environment and chasing components and, as Todd talked about, the inefficiencies of building -- not exactly knowing what you're to build next month based on component availability -- is causing some of the inefficiencies. I'd expect those to go away and I'd expect customer forecasts maybe to get better as we start looking into the future. But right now the challenge is just trying to react to the environment.

Jim Suva - *Citigroup - Analyst*

Okay. My last question is -- I fully understand the component shortages. Is the margin pressure, the component shortages, and the higher stock coming from your Company's sales and profits doing so well? Or is there anything also that's impacting the margins for the Company due to the geopolitical situation that we see which tends to be quite fluid?

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

No, at this point there's no impact from the geopolitical situation. Of course, the biggest issue that's out there right now is the China tariff situation, which we are not seeing -- it's a pretty minimal impact from a dollar standpoint of the components and products that we are involved with in general. And we are in a position where we're able to pass any of that along to our customers for starters.

But second, we are not seeing any real difference in customer behavior as of this point, although it is something we are monitoring very closely. Demand is not changing; their sourcing strategy is not changing at this point. If we are seeing anything as a result of it, it may be just a little bit of change in a product that -- new product that's being launched potentially going to a different geography than China.

Jim Suva - *Citigroup - Analyst*

Great, thanks so much for your details.

Operator

Matthew Sheerin, Stifel.

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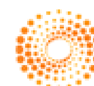

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Matthew Sheerin - *Stifel Nicolaus - Analyst*

Just following up on your comments regarding tariffs. You mentioned potentially shifting manufacturing for customers. Are you having more of those conversations with your customers as we're moving forward here?

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

This is Steve, I will handle that one. I would say customers are talking about it. I would say not that much different than a year, 1.5 years ago when people were talking about Mexico. Everybody's trying to figure out the exact impact, so there may be some conversations but no real action.

And I think Todd hit it really well which is nobody's talking about changing anything in the supply chain solution thus far. They are just trying to figure out from a sourcing strategy going forward with their new products should they change. And I think it's going to probably take here a quarter for that to flush out. But I would say nothing dramatic going on, just lots of conversations about what is the right long-term solution given the environment.

Matthew Sheerin - *Stifel Nicolaus - Analyst*

Okay, thank you. And relative to the $10 million in upside that you missed out on due to the component situation, what end markets? Was that in any specific areas that you saw that upside and that didn't get done?

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

I would say that the comm sector was probably the leading one. But as I look at the list, there is probably 30 opportunities on this list that vary in size anywhere from a few tens of thousands up to 1 million or a couple million. So it's pretty broad-based in terms of just the upside that we were not able to meet.

Matthew Sheerin - *Stifel Nicolaus - Analyst*

Okay and your guidance for increased margin next year, that assumes that you still have some hiccups -- supply chain hiccups into at least part of 2019?

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

Correct, we have not really forecasted any improvements as a result of the supply chain in there. So, I think there's potential for improvements in that piece of our margin as well, too. We are taking a conservative approach there.

Matthew Sheerin - *Stifel Nicolaus - Analyst*

Fair enough. Thanks a lot.

Operator

Mitch Steves, RBCM.

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Mitch Steves - *RBC Capital Markets - Analyst*

I'm actually going to focus on the revenue side actually. So you guys mentioned that you saw an uptick from new program ramps. Can you maybe help us set out exactly what segment that was in? Was it in Communication?

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

It was multiple sectors. I mean, it impacted Communications, Healthcare and Industrial/Commercial in pretty significant ways.

Mitch Steves - *RBC Capital Markets - Analyst*

I guess I'm just trying to compare it to your Communications original guide, right, because this is up 20% year-over-year. So I'm just wondering which segment or what piece of Communications is better than expected broadly.

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

So the Communications sector we are expecting to basically be flat year-over-year from 2017 to 2018, that is our expectation. And as Todd talked about, we saw revenue ramps. If you look at Plexus from 2017 to 2018, we've been talking significantly about the quantities of ramps that we were doing that was driving the revenue growth. And so as those have now transitioned -- starting to transition, we'd expect those to start to stabilize as we look into 2019.

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

Yes, just to add to it, within Communications there were multiple programs and customers that contributed to the upside.

Mitch Steves - *RBC Capital Markets - Analyst*

Okay. And then the last one is just on the margin front. I understand the component -- component cost that's been talked to quite a bit. But basically is it fair to assume this would be kind of a one quarter change? Or how do I think about the timeframe in terms of you guys I guess fixing the supply chain issues there?

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

I think as we look to -- we talked about upside demand in the fiscal third quarter that we were not able to achieve. We have that happening here in the fourth quarter as well. My expectation that's going to happen again in the first quarter of 2019. And we kind of talked about the component availability we expect to stretch into 2019.

So, we don't think this is going to go away in the short term. But from our standpoint we believe we're managing it pretty well. It's just the upside demand is the part that's the most challenging for us.

Mitch Steves - *RBC Capital Markets - Analyst*

Got it, understood. Thank you.

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Operator

(Operator Instructions). Paul Coster, JPMorgan.

Paul Chung - *JPMorgan - Analyst*

This is Paul Chung on for Coster. Thanks for taking my question. So, just in CapEx, where do you see levels for fiscal year 2019? I know you mentioned last quarter you expect some elevated spend in Mexico to extend into first half. Just trying to get a sense for what you expect -- free cash flow will start to normalize. If could you expand on CapEx levels as well as working cap conversion, that would be great.

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

Sure, this is Pat, I can take that question. So let me start with CapEx. Fiscal 2018 we are looking at $70 million to $80 million, and that included the acquisition of the building in Penang, Malaysia.

As we look to 2019 I see the range probably similar to 2018, maybe slightly higher. We do have a build out of the Guadalajara -- the second facility in Guadalajara and that's about $20 million. And then with the growth that we are projecting, adding investments to support that growth will bring us probably in-line or slightly above the fiscal 2018 level.

And then just from a free cash flow standpoint, let me give you some comments on that. And maybe I'll take you back to fiscal 2017 where we actually contracted in revenue, but we threw off a lot of cash. We freed up some working capital and we delivered free cash flow over $130 million. As we look to 2018, with the build revenue and the constrained supply chain, we are looking slightly negative in free cash flow.

So as I look to fiscal 2019, we've talked about margin improvement coming from better leverage and that's going to add cash flow for us in 2019 compared to 2018. From a working capital perspective, we invested quite a bit this year to support the growth and to support the supply chain and extended lead-times drove up inventory.

As we move into 2019, as we've talked about, I don't see a lot of change in the component market. But you have to remember that impact was on our overall base in fiscal 2018. As we move into 2019 we expect a similar situation and then we will be impacted potentially on the growth portion of that inventory related to the growth portion.

So, the bottom line there is I do see an investment in working capital in fiscal 2019, but not to the extent that we saw in 2018. So bottom line is I think we'll be closer to the fiscal 2017 levels, probably not that level because we freed up cash flow in fiscal 2017, but we'll be much better than fiscal 2018.

Paul Chung - *JPMorgan - Analyst*

And is this your kind of new baseline amount of CapEx moving forward and you are mentioning slightly higher in 2019? You've been in the 30s, the 40 ranges in the past. How should we think about moving beyond that in 2020 and 2021? I know it's a little bit far out.

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

Yes, I can give you some initial thoughts. We are going through our long-range planning process right now. But if you look at what's included in fiscal 2018 with the Penang facility, fiscal 2019 the Guadalajara facility, that really creates a lot of capacity for us. And sometimes our CapEx can be lumpy in the sense that we may have a year where we add a facility and that is $20 million to $30 million and that's going to increase our CapEx.

And you are seeing that in fiscal 2018 and moving into 2019. I think as we look beyond 2019 we will come down more to our traditional levels, and maybe that's more around $50 million to $70 million, but not necessarily in the $80 million to $90 million range.

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Paul Chung - *JPMorgan - Analyst*

Got you. And then last question is your -- how should we think about the pace of buybacks? I mean, this quarter you ramped up quite materially. How should we think about the pace in fiscal year 2019? Thank you.

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

Yes, maybe I'll just touch on the fiscal fourth quarter to start with. So we are bringing back -- we expect to bring back $50 million this quarter. I think a lot of that is going to go towards the buyback. So, we could see $35 million to $45 million being purchased this quarter.

As we move into 2019 then -- and we will dip into the authorization -- the $200 million authorization that was approved earlier this year, we will dip into that this year. The remaining portion of that authorization will extend most likely through most of fiscal 2019. So, I think on average, a quarterly average -- and a lot of this depends on market conditions -- but it could be anywhere from $35 million to $45 million on a quarterly basis next year.

Paul Chung - *JPMorgan - Analyst*

Okay, great. Thank you very much.

Operator

And I will now turn the call back over to Todd Kelsey for closing remarks.

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

All right, thank you, John. In closing, thank you to the analysts and investors who joined us in our call today. We certainly appreciate your support and interest in Plexus. I also want to thank our employees in the call for your commitment to servicing our customers. Have a nice day, everybody.

Operator

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

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