PLEXUS CORP
Form 10-Q
February 01, 2019
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

ý Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended December 29, 2018
OR

¨ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
Commission File Number 001-14423

PLEXUS CORP.
(Exact name of registrant as specified in charter)

Wisconsin	39-1344447
(State of Incorporation)	(IRS Employer Identification No.)

One Plexus Way
Neenah, Wisconsin 54957
(Address of principal executive offices)(Zip Code)
Telephone Number (920) 969-6000
(Registrant’s telephone number, including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ý	Accelerated filer ¨	Non-accelerated filer ¨	Smaller reporting company ¨	Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý
As of January 29, 2019, there were 30,914,029 shares of common stock outstanding.

Table of Contents

PLEXUS CORP.
TABLE OF CONTENTS
December 29, 2018

Table of Contents

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

PLEXUS CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in thousands, except per share data)
Unaudited

	Three Months Ended	
	December 29, 2018	December 30, 2017
Net sales	$765,544	$ 677,294
Cost of sales	693,161	613,771
Gross profit	72,383	63,523
Selling and administrative expenses	35,432	31,966
Operating income	36,951	31,557
Other income (expense):		
Interest expense	(2,249)	(3,725)
Interest income	525	1,555
Miscellaneous, net	(1,112)	(346)
Income before income taxes	34,115	29,041
Income tax expense	11,889	127,534
Net income (loss)	$22,226	$ (98,493)
Earnings (loss) per share:		
Basic	$0.71	$ (2.93)
Diluted	$0.69	$ (2.93)
Weighted average shares outstanding:		
Basic	31,403	33,567
Diluted	32,286	33,567
Comprehensive income (loss):		
Net income (loss)	$22,226	$ (98,493)
Other comprehensive income (loss):		
Derivative instrument fair value adjustment	378	1,539
Foreign currency translation adjustments	(1,871)	2,142
Other comprehensive income (loss)	(1,493)	3,681
Total comprehensive income (loss)	$20,733	$ (94,812)

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

PLEXUS CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except per share data)
Unaudited

	December 29, 2018	September 29, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	$ 188,799	$ 297,269
Restricted cash	4,074	417
Accounts receivable, net of allowances of $1,094 and $885, respectively	428,487	394,827
Contract assets	82,775	—
Inventories, net	798,271	794,346
Prepaid expenses and other	31,435	30,302
Total current assets	1,533,841	1,517,161
Property, plant and equipment, net	361,311	341,306
Deferred income taxes	10,832	10,825
Intangible assets, net	7,807	8,239
Other	55,892	55,111
Total non-current assets	435,842	415,481
Total assets	$ 1,969,683	$ 1,932,642
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt and capital lease obligations	$ 8,633	$ 5,532
Accounts payable	516,989	506,322
Customer deposits	112,663	90,782
Accrued salaries and wages	58,532	66,874
Other accrued liabilities	83,004	68,163
Total current liabilities	779,821	737,673
Long-term debt and capital lease obligations, net of current portion	187,567	183,085
Long-term accrued income taxes payable	63,848	56,130
Deferred income taxes payable	14,610	14,376
Other liabilities	18,674	20,235
Total non-current liabilities	284,699	273,826
Total liabilities	1,064,520	1,011,499
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, $.01 par value, 5,000 shares authorized, none issued or outstanding	—	—
Common stock, $.01 par value, 200,000 shares authorized, 52,591 and 52,567 shares issued, respectively, and 30,992 and 31,838 shares outstanding, respectively	526	526
Additional paid-in capital	587,011	581,488
Common stock held in treasury, at cost, 21,599 and 20,729 shares, respectively	(761,189)	(711,138)
Retained earnings	1,092,287	1,062,246
Accumulated other comprehensive loss	(13,472)	(11,979)
Total shareholders' equity	905,163	921,143
Total liabilities and shareholders' equity	$ 1,969,683	$ 1,932,642

The accompanying notes are an integral part of these condensed consolidated financial statements.

PLEXUS CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(in thousands)
Unaudited

	Common Stock						
	Shares	Amount	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balances, September 30, 2017	33,464	$ 519	$ 555,297	$(574,104)	$1,049,206	$ (4,979)	$1,025,939
Net income (loss)	—	—	—	—	(98,493)	—	(98,493)
Other comprehensive income (loss)	—	—	—	—	—	3,681	3,681
Treasury shares purchased	(158)	—	—	(9,547)	—	—	(9,547)
Share-based compensation expense	—	—	3,896	—	—	—	3,896
Exercise of stock options, including tax benefits	301	3	8,369	—	—	—	8,372
Balances, December 30, 2017	33,607	$ 522	$ 567,562	$(583,651)	$950,713	$ (1,298)	$933,848
Balances, September 29, 2018	31,838	$ 526	$ 581,488	$(711,138)	$1,062,246	$ (11,979)	$921,143
Net income (loss)	—	—	—	—	22,226	—	22,226
Cumulative effect adjustment for adoption of new accounting pronouncement (1)	—	—	—	—	7,815	—	7,815
Other comprehensive income (loss)	—	—	—	—	—	(1,493)	(1,493)
Treasury shares purchased	(870)	—	—	(50,051)	—	—	(50,051)
Share-based compensation expense	—	—	4,753	—	—	—	4,753
Exercise of stock options, including tax benefits	24	—	770	—	—	—	770
Balances, December 29, 2018	30,992	$ 526	$ 587,011	$(761,189)	$1,092,287	$ (13,472)	$905,163

(1) See Note 1, "Basis of Presentation", for a discussion of recently adopted accounting pronouncements.

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

PLEXUS CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
Unaudited

	Three Months Ended	
	December 29, 2018	December 30, 2017
Cash flows from operating activities		
Net income (loss)	$22,226	$ (98,493)
Adjustments to reconcile net income (loss) to net cash flows from operating activities:		
Depreciation and amortization	12,574	11,702
Deferred income taxes	943	21,906
Share-based compensation expense	4,753	3,896
Other, net	51	(46)
Changes in operating assets and liabilities, excluding impacts of acquisition:		
Accounts receivable	(34,240)	31,461
Contract assets	(6,339)	—
Inventories	(74,344)	(14,016)
Other current and noncurrent assets	(2,221)	(4,453)
Accrued income taxes payable	10,811	106,156
Accounts payable	7,928	8,756
Customer deposits	22,050	(5,195)
Other current and noncurrent liabilities	2,467	7,432
Cash flows (used in) provided by operating activities	(33,341)	69,106
Cash flows from investing activities		
Payments for property, plant and equipment	(24,903)	(16,702)
Proceeds from sales of property, plant and equipment	49	173
Business acquisition	1,180	—
Cash flows used in investing activities	(23,674)	(16,529)
Cash flows from financing activities		
Borrowings under debt agreements	231,500	216,314
Payments on debt and capital lease obligations	(229,469)	(324,192)
Repurchases of common stock	(50,051)	(9,547)
Proceeds from exercise of stock options	796	8,513
Payments related to tax withholding for share-based compensation	(26)	(141)
Cash flows used in financing activities	(47,250)	(109,053)
Effect of exchange rate changes on cash and cash equivalents	(548)	2,073
Net decrease in cash and cash equivalents and restricted cash	(104,813)	(54,403)
Cash and cash equivalents and restricted cash:		
Beginning of period	297,686	569,254
End of period	$192,873	$ 514,851

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

PLEXUS CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED DECEMBER 29, 2018 AND DECEMBER 30, 2017
Unaudited

1. Basis of Presentation

Basis of Presentation:

The accompanying Condensed Consolidated Financial Statements included herein have been prepared by Plexus Corp. and its subsidiaries (together “Plexus” or the “Company”) without audit and pursuant to the rules and regulations of the United States (“U.S.”) Securities and Exchange Commission (“SEC”). The accompanying Condensed Consolidated Financial Statements reflect all adjustments, which include normal recurring adjustments necessary for the fair statement of the consolidated financial position of the Company as of December 29, 2018 and September 29, 2018, and the results of operations for the three months ended December 29, 2018 and December 30, 2017, and the cash flows and shareholders' equity for the same three month periods.

The Company’s fiscal year ends on the Saturday closest to September 30. The Company uses a “4-4-5” weekly accounting system for the interim periods in each quarter. Each quarter, therefore, ends on a Saturday at the end of the 4-4-5 period. Periodically, an additional week must be added to the fiscal year to re-align with the Saturday closest to September 30. All fiscal quarters presented herein included 13 weeks.

Certain information and footnote disclosures, normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP"), have been condensed or omitted pursuant to the SEC’s rules and regulations dealing with interim financial statements. However, the Company believes that the disclosures made in the Condensed Consolidated Financial Statements included herein are adequate to make the information presented not misleading. It is suggested that these Condensed Consolidated Financial Statements be read in conjunction with the Consolidated Financial Statements and notes thereto included in the Company’s 2018 Annual Report on Form 10-K.

Recently Adopted Accounting Pronouncements:

In October 2016, the Financial Accounting Standards Board (the "FASB") issued ASU 2016-16 related to the income tax consequences of intra-entity transfers of assets other than inventory. The new standard eliminates the exception for an intra-entity transfer of an asset other than inventory and requires an entity to recognize the income tax consequences when the transfer occurs. The Company adopted this guidance under the modified retrospective approach during the first quarter of fiscal 2019. The Company recognized no net impact to its fiscal 2019 opening Retained Earnings balance upon adoption and does not anticipate any material impact to the Company's future Consolidated Financial Statements.

In August 2016, the FASB issued ASU 2016-15 related to the classification of certain cash receipts and cash payments, which clarifies how entities should classify certain cash receipts and cash payments on the statement of cash flows. The new standard addresses certain issues where diversity in practice was identified. It also amends existing guidance, which is principles based and often requires judgment to determine the appropriate classification of cash flows as operating, investing or financing activities and clarifies how the predominance principle should be applied when cash receipts and cash payments have aspects of more than one class of cash flows. The Company adopted this guidance during the first quarter of fiscal 2019 with no material impact to the Company's Condensed Statements of Cash Flows.

In May 2014, the FASB issued ASU 2014-09, which requires an entity to recognize revenue relating to contracts with customers that depicts the transfer of promised goods or services to customers in an amount reflecting the consideration to which the entity expects to be entitled in exchange for such goods or services ("Topic 606"). Topic 606 also requires disclosures enabling users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers and is effective for the Company beginning in the first quarter of fiscal year 2019.

On September 30, 2018, the Company adopted and applied Topic 606 to all contracts using the modified retrospective method of adoption. Upon adoption, the Company recognized an increase to its beginning Retained Earnings balance of $7.8 million. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. Refer to Note 13, "Revenue from Contracts with Customers," for further information.

Recently Issued Accounting Pronouncements Not Yet Adopted:

In February 2016, the FASB issued ASU 2016-02, which requires lessees to recognize most leases on their balance sheets but record expenses on their income statements in a manner similar to current accounting. For lessors, the guidance modifies the

Table of Contents

classification criteria and the accounting for sales-type and direct financing leases. The guidance is effective for the Company beginning in the first quarter of fiscal year 2020. Early adoption is permitted. The Company is currently in the process of assessing the impact of the adoption of the new standard on its Consolidated Financial Statements and plans to adopt the standard in the first quarter of fiscal year 2020.

In August 2017, the FASB issued ASU 2017-12 related to the accounting for hedging activities. The pronouncement expands and refines hedge accounting, aligns the recognition and presentation of the effects of hedging instruments and hedge items in the financial statements, and includes certain targeted improvements to ease the application of current guidance related to the assessment of hedge effectiveness. The guidance is effective for the Company beginning in the first quarter of fiscal year 2020. Early adoption is permitted. The Company is currently in the process of assessing the impact of the adoption of the new standard on its Consolidated Financial Statements and the timing of adoption.

The Company believes that no other recently issued accounting standards will have a material impact on its Consolidated Financial Statements, or apply to its operations.

2. Inventories

Inventories as of December 29, 2018 and September 29, 2018 consisted of the following (in thousands):

	December 29, 2018	September 29, 2018
Raw materials	$ 637,324	$ 579,377
Work-in-process	70,956	102,337
Finished goods	89,991	112,632
Total inventories, net	$ 798,271	$ 794,346

In certain circumstances, per contractual terms, customer deposits are received by the Company to offset obsolete and excess inventory risks. The total amount of customer deposits related to inventory and included within current liabilities on the accompanying Condensed Consolidated Balance Sheets as of December 29, 2018 and September 29, 2018 was $110.7 million and $87.7 million, respectively.

In the first quarter of fiscal year 2019, the Company adopted and applied Topic 606 to all contracts using the modified retrospective method of adoption. The prior year comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. Refer to Note 13, "Revenue from Contracts with Customers," for further information.

3. Debt, Capital Lease Obligations and Other Financing

Debt and capital lease obligations as of December 29, 2018 and September 29, 2018, consisted of the following (in thousands):

	December 29, 2018	September 29, 2018
4.05% Senior Notes, due June 15, 2025	$ 100,000	$ 100,000
4.22% Senior Notes, due June 15, 2028	50,000	50,000
Borrowings under the credit facility	3,000	—
Capital lease and other financing obligations	44,368	39,857
Unamortized deferred financing fees	(1,168)	(1,240)
Total obligations	196,200	188,617
Less: current portion	(8,633)	(5,532)
Long-term debt and capital lease obligations, net of current portion	$ 187,567	$ 183,085

On June 15, 2018, the Company entered into a Note Purchase Agreement (the “2018 NPA”) pursuant to which it issued an aggregate of $150.0 million in principal amount of unsecured senior notes, consisting of $100.0 million in principal amount of 4.05% Series A Senior Notes, due on June 15, 2025, and $50.0 million in principal amount of 4.22% Series B Senior Notes, due on June 15, 2028 (collectively, the “2018 Notes”), in a private placement. The 2018 NPA includes customary operational and financial covenants with which the Company is required to comply, including, among others, maintenance of certain

Table of Contents

financial ratios such as a total leverage ratio and a minimum interest coverage ratio. The 2018 Notes may be prepaid in whole or in part at any time, subject to payment of a make-whole amount. Interest on the 2018 Notes is payable semiannually. At December 29, 2018, the Company was in compliance with the covenants under the 2018 NPA.

The Company also has a senior unsecured revolving credit facility (the "Credit Facility"), with a $300.0 million maximum commitment that expires on July 5, 2021. The Credit Facility may be further increased to $500.0 million, generally by mutual agreement of the Company and the lenders, subject to certain customary conditions. During the three months ended December 29, 2018, the highest daily borrowing was $107.5 million; the average daily borrowings were $47.6 million. The Company borrowed $231.5 million and repaid $228.5 million of revolving borrowings under the Credit Facility during the three months ended December 29, 2018. The Company was in compliance with all financial covenants relating to the Credit Facility, which are generally consistent with those in the 2018 NPA discussed above. The Company is required to pay a commitment fee on the daily unused revolver credit commitment based on the Company's leverage ratio; the fee was 0.175% as of December 29, 2018.

The fair value of the Company’s debt, excluding capital leases, was $150.5 million and $151.9 million as of December 29, 2018 and September 29, 2018, respectively. The carrying value of the Company's debt, excluding capital leases, was $153.0 million and $150.0 million as of December 29, 2018 and September 29, 2018, respectively. If measured at fair value in the financial statements, the Company's debt would be classified as Level 2 in the fair value hierarchy. Refer to Note 4, "Derivatives," for further information regarding the Company's fair value calculations and classifications.

4. Derivatives

All derivatives are recognized in the accompanying Condensed Consolidated Balance Sheets at their estimated fair value. The Company uses derivatives to manage the variability of foreign currency obligations. The Company has cash flow hedges related to forecasted foreign currency obligations, in addition to non-designated hedges to manage foreign currency exposures associated with certain foreign currency denominated assets and liabilities. The Company does not enter into derivatives for speculative purposes.

Changes in the fair value of the derivatives that qualify as cash flow hedges are recorded in "Accumulated other comprehensive loss" in the accompanying Condensed Consolidated Balance Sheets until earnings are affected by the variability of the cash flows. In the next twelve months, the Company estimates that $1.3 million of unrealized losses, net of tax, related to cash flow hedges will be reclassified from other comprehensive income (loss) into earnings.

Changes in the fair value of the non-designated derivatives related to recognized foreign currency denominated assets and liabilities are recorded in "Miscellaneous, net" in the accompanying Condensed Consolidated Statements of Comprehensive Income (Loss).

The Company enters into forward currency exchange contracts for its operations in Malaysia and Mexico on a rolling basis. The Company had cash flow hedges outstanding with a notional value of $74.1 million as of December 29, 2018, and $74.0 million as of September 29, 2018. These forward currency contracts fix the exchange rates for the settlement of future foreign currency obligations that have yet to be realized. The total fair value of the forward currency exchange contracts was a $1.3 million liability as of December 29, 2018, and a $1.7 million liability as of September 29, 2018.

The Company had additional forward currency exchange contracts outstanding with a notional value of $34.6 million as of December 29, 2018, and $28.6 million as of September 29, 2018. The Company did not designate these derivative instruments as hedging instruments. The net settlement amount (fair value) related to these contracts is recorded on the Condensed Consolidated Balance Sheets as either a current or long-term asset or liability, depending on the term, and as an element of "Miscellaneous, net" within the Condensed Consolidated Statements of Comprehensive Income (Loss). The total fair value of these derivatives was a $0.4 million asset as of December 29, 2018, and a $0.1 million liability as of September 29, 2018.

Table of Contents

The tables below present information regarding the fair values of derivative instruments and the effects of derivative instruments on the Company’s Condensed Consolidated Financial Statements:

Fair Values of Derivative Instruments
In thousands of dollars

	Asset Derivatives			Liability Derivatives		
		December 29, 2018	September 29, 2018		December 29, 2018	September 29, 2018
Derivatives designated as hedging instruments	Balance Sheet Classification	Fair Value	Fair Value	Balance Sheet Classification	Fair Value	Fair Value
Foreign currency forward contracts	Prepaid expenses and other	$ 47	$ 292	Other accrued liabilities	$ 1,361	$ 1,984

Fair Values of Derivative Instruments
In thousands of dollars

	Asset Derivatives			Liability Derivatives		
		December 29, 2018	September 29, 2018		December 29, 2018	September 29, 2018
Derivatives not designated as hedging instruments	Balance Sheet Classification	Fair Value	Fair Value	Balance Sheet Classification	Fair Value	Fair Value
Foreign currency forward contracts	Prepaid expenses and other	$ 460	$ 42	Other accrued liabilities	$ 68	$ 81

Derivative Impact on Accumulated Other Comprehensive Income (Loss) ("OCI")
for the Three Months Ended
In thousands of dollars

Derivatives in Cash Flow Hedging Relationships	Amount of (Loss) Gain Recognized in OCI on Derivatives (Effective Portion)	
	December 29, 2018	December 30, 2017
Foreign currency forward contracts	$ (388)	$ 2,714

Derivative Impact on Gain (Loss) Recognized in Income
for the Three Months Ended
In thousands of dollars

Derivatives in Cash Flow Hedging Relationships	Classification of (Loss) Gain Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of (Loss) Gain Reclassified from Accumulated OCI into Income (Effective Portion)
		December 29, 2018