

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

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended September 28, 2019

OR

TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-14423



**PLEXUS CORP.**

(Exact name of registrant as specified in charter)

**Wisconsin**

(State or other jurisdiction of incorporation)

**39-1344447**

(I.R.S. 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)

Securities registered pursuant to Section 12(b) of the Act:

| <u>Title of each class</u>     | <u>Trading Symbol</u> | <u>Name of each exchange on which registered</u> |
|--------------------------------|-----------------------|--|
| Common Stock, \$0.01 par value | PLXS                  | The Nasdaq Global Select Market                  |

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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  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  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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.

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Large accelerated filer  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

As of March 30, 2019, 30,241,262 shares of common stock were outstanding, and the aggregate market value of the shares of common stock (based upon the \$60.95 closing price of the registrant's common stock on the last trading day of its fiscal second quarter, as reported on the Nasdaq Global Select Market) held by non-affiliates (excludes 697,197 shares reported as beneficially owned by directors and executive officers – does not constitute an admission as to affiliate status) was approximately \$1.8 billion.

As of November 11, 2019, there were 29,178,745 shares of common stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE:**

Parts of Registrant's Proxy Statement for the 2020 Annual Meeting of Shareholders are incorporated by reference into Part III of this Report.

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**September 28, 2019**

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**"SAFE HARBOR" CAUTIONARY STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995:**

The statements contained in this Form 10-K that are guidance or which are not historical facts (such as statements in the future tense and statements including believe, expect, intend, plan, anticipate, goal, target and similar terms and concepts), including all discussions of periods which are not yet completed, are forward-looking statements that involve risks and uncertainties. These risks and uncertainties include, but are not limited to: the risk of customer delays, changes, cancellations or forecast inaccuracies in both ongoing and new programs; the lack of visibility of future orders, particularly in view of changing economic conditions; the economic performance of the industries, sectors and customers we serve; the effects of shortages and delays in obtaining components as a result of economic cycles, natural disasters or otherwise; the effects of tariffs, trade disputes, trade agreements and other trade protection measures; the effects of the volume of revenue from certain sectors or programs on our margins in particular periods; our ability to secure new customers, maintain our current customer base and deliver product on a timely basis; the risks of concentration of work for certain customers; the particular risks relative to new or recent customers, programs or services, which risks include customer and other delays, start-up costs, potential inability to execute, the establishment of appropriate terms of agreements, and the lack of a track record of order volume and timing; the effects of start-up costs of new programs and facilities; possible unexpected costs and operating disruption in transitioning programs, including transitions between Company facilities; the risk that new program wins and/or customer demand may not result in the expected revenue or profitability; the fact that customer orders may not lead to long-term relationships; our ability to manage successfully and execute a complex business model characterized by high product mix, low volumes and demanding quality, regulatory, and other requirements; the risks associated with excess and obsolete inventory, including the risk that inventory purchased on behalf of our customers may not be consumed or otherwise paid for by the customer, resulting in an inventory write-off; risks related to information technology systems and data security; the ability to realize anticipated savings from restructuring or similar actions, as well as the adequacy of related charges as compared to actual expenses; increasing regulatory and compliance requirements; the effects of U.S. Tax Reform and of related foreign jurisdiction tax developments; current or potential future barriers to the repatriation of funds that are currently held outside of the United States as a result of actions taken by other countries or otherwise; the potential effects of jurisdictional results on our taxes, tax rates, and our ability to use deferred tax assets and net operating losses; the weakness of areas of the global economy; the effect of changes in the pricing and margins of products; raw materials and component cost fluctuations; the potential effect of fluctuations in the value of the currencies in which we transact business; the effects of changes in economic conditions, political conditions and tax matters in the United States and in the other countries in which we do business (including as a result of the United Kingdom's pending exit from the European Union); the potential effect of other world or local events or other events outside our control (such as changes in energy prices, terrorism and weather events); the impact of increased competition; an inability to successfully manage human capital; changes in financial accounting standards; and other risks detailed herein and in our other Securities and Exchange Commission filings.

In addition, see Risk Factors in Part I, Item 1A and Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 for a further discussion of some of the factors that could affect future results.

\* \* \*

## PART I

### ITEM 1. BUSINESS

#### Overview

Plexus Corp. and its subsidiaries (together "Plexus," the "Company," or "we") participate in the Electronic Manufacturing Services ("EMS") industry. We partner with our customers to create the products that build a better world. Since 1979, Plexus has been partnering with companies to transform concepts into branded products and deliver them to the market. From idea to aftermarket and everything in between, Plexus is a global leader in providing support for all the facets of the product realization process - Design and Development, Supply Chain Solutions, New Product Introduction, Manufacturing, and Aftermarket Services. Plexus delivers comprehensive end-to-end solutions in the Americas ("AMER"), Europe, Middle East, and Africa ("EMEA") and Asia-Pacific ("APAC") regions for our customers.

We specialize in working in industries with highly complex products and demanding regulatory environments. Plexus has partnerships with approximately 140 customers in the Healthcare/Life Sciences, Industrial/Commercial, Aerospace/Defense and Communications market sectors. We leverage our expertise to understand the unique needs of our customers' markets and have aligned our processes to provide flexibility, create efficiency and deliver superior quality. Our customers have stringent quality, reliability and regulatory requirements, requiring exceptional production and supply chain agility. Their products require complex configuration management, direct order fulfillment (to end customers), global logistics management and aftermarket services. In order to service the complexities that our customers' products demand, we utilize our full suite of solution offerings to support our customers' products from concept to end of life.

Plexus is passionate about being a global leader at serving markets consisting of highly complex customer programs and demanding regulatory environments. Our customers look to us to fulfill programs characterized by unique flexibility, technology, quality and regulatory requirements. To deliver on our strategy, we align our operations, processes, workforce and financial metrics to create:

- A high performance, accountable organization with a talented workforce that is deeply passionate about driving growth through customer service excellence;
- Strategic growth by using customer driven, sector based go-to-market strategies; and
- Execution driven by a collaborative, customer-centric culture that continuously evaluates and optimizes our business processes to strive to create shareholder value.

We operate flexible manufacturing facilities and design our processes to accommodate customers with multiple product lines and configurations. One or more uniquely configured "focus factories," supported by tailored supply chain and logistics solutions, are designed to meet the flexibility and responsiveness needed to support customer fulfillment requirements.

We accomplish our go-to-market strategy through the four market sectors we serve. Each sector has a market sector vice president, as well as business development and customer management leaders who together oversee and provide leadership to teams that include business development directors, customer directors or managers, supply chain, engineering and manufacturing subject matter experts, and market sector analysts. These teams maintain expertise related to each market sector and execute sector strategies aligned to that market's unique quality and regulatory requirements.

Our market sector teams help define Plexus' strategy for growth with a particular emphasis on expanding the value-added solutions we offer customers. Our sales and marketing efforts focus on targeting new customers and expanding business with existing customers. We believe our ability to provide a full range of product realization services gives us a business advantage.

Our financial model aligns with our business strategy. Our primary focus is to earn a return on invested capital ("ROIC") 500 basis points above our weighted average cost of capital ("WACC"), which we refer to as "Economic Return." We review our internal calculation of WACC annually; for fiscal 2019, our WACC was 9.0%. We believe economic profit is a fundamental driver of shareholder value. Plexus measures economic profit by taking the difference between ROIC and WACC and multiplying it by invested capital. By exercising discipline to generate a ROIC in excess of our WACC, with focus on economic profit, our goal is to ensure that we create value for our shareholders. For more information regarding ROIC and Economic Return, which are non-GAAP financial measures, refer to "Management's Discussion and Analysis of Financial Condition - Results of Operations - Return on Invested Capital ("ROIC") and Economic Return" in Part II, Item 7. For a reconciliation of ROIC and Economic Return to our financial statements that were prepared using accounting principles

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generally accepted in the U.S. ("U.S. GAAP" or "GAAP"), see Exhibit 99.1 to this annual report on Form 10-K, which exhibit is incorporated herein by reference.

Relative to our competition, overriding factors such as lower manufacturing volumes, flexibility and fulfillment requirements, and complex regulatory requirements typically result in higher investments in inventory and selling and administrative costs for us. The cost variance from our competitors is especially evident relative to those that provide EMS services for high-volume, less complex products, with less stringent requirements (e.g., consumer electronics).

Plexus serves a diverse customer landscape that includes industry-leading, branded product companies, along with other technology pioneering start-ups and emerging companies that may or may not maintain manufacturing capabilities. In addition to prime technology advancements, key government and policy trends impact our business, including the U.S. Food and Drug Administration's ("FDA") approval of new medical devices, defense procurement practices, and other government and regulatory processes. Plexus may benefit from increasing outsourcing trends.

We provide most of our optimized solutions on a turnkey basis, and we typically procure all materials required for product assembly. We provide select services on a consignment basis, meaning the customer supplies the necessary materials and Plexus provides the labor and other services required for product assembly. In addition to manufacturing, turnkey service requires material procurement and warehousing and involves greater resource investments than consignment services. Other than certain test equipment, manufacturing equipment, and software used for internal operations, we do not design or manufacture our own proprietary products.

Established in 1979 as a Wisconsin corporation, we have over 19,000 employees, including over 3,300 engineers and technologists dedicated to product development and design, test equipment development and design, and manufacturing process development and control, all of whom operate from 26 active facilities, totaling approximately 4.0 million square feet. Plexus' facilities are strategically located to support the global supply chain, engineering, manufacturing, and aftermarket service needs of customers in our targeted market sectors.

Plexus maintains a website at [www.plexus.com](http://www.plexus.com). As soon as is reasonably practical, after we electronically file or furnish all reports to the Securities and Exchange Commission ("SEC"), we provide online copies of such reports, free of charge. These reports include: Proxy Statements, Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, Specialized Disclosure Reports on Form SD, and amendments to those reports. These reports are also accessible at the SEC's website at [www.sec.gov](http://www.sec.gov). Our Code of Conduct and Business Ethics is also posted on our website. You may access these SEC reports and the Code of Conduct and Business Ethics by following the links under "Investors" at our website.

## **Solutions**

With integrated Design and Development, Supply Chain Solutions, New Product Introduction, Manufacturing and Aftermarket Services, we proactively tackle tough challenges throughout the product lifecycle. It is how our teams strive to create innovative and efficient paths to get products to market.

**Design and Development** - Plexus was established with engineering as a core competency and has built a reputation for success. Our customers are able to partner with a collaborative team of approximately 675 development engineers to create new products. Using the same tools and processes throughout our eight Design Centers worldwide, we leverage the latest technology and state-of-the-art design automation methodologies to provide comprehensive new product development and value engineering solutions.

**Supply Chain Solutions** - Delivering an optimal supply chain solution is more than simply getting a product where it needs to be on time. We take a unique approach. Our supply chain experts engage in all of Plexus' integrated solutions, working closely with our engineers to identify opportunities for supply chain optimization early in the design stage. At Plexus, we take pride in managing the full supply chain to minimize cost, mitigate risk and provide a flexible, scalable solution for our customers.

**New Product Introduction** - When introducing a new product, customers need to move quickly. Plexus offers a dedicated team focused on decreasing time to market with a full suite of integrated new product introduction services. Through early integration and collaboration, customers can take advantage of Plexus' capabilities, such as design for excellence (DFX), specialized design of test solutions and rapid prototyping, while the project is advanced by a dedicated Plexus transition management team.

**Manufacturing** - Our approach to manufacturing focuses on innovation, continuous improvement and superior quality and delivery. With a global footprint and scalable operations, we aim to tailor our manufacturing environment to meet each

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customer's needs worldwide. As we strive for zero defects, we endeavor to empower all employees with the knowledge that exceptional quality begins with each individual member of our team. As a result, we believe Plexus is positioned to support the complex technology and regulatory needs of the industries we serve and to provide customers with innovative and dependable manufacturing services.

**Aftermarket Services** - From product deployment all the way through a product's end of life, Plexus offers a full range of aftermarket services. We help our customers manage and extend the lifecycle of their products through an optimized level of service. With services such as depot repair, service parts logistics management, order management, distribution and warehousing, and recycling, we are committed to protecting the success of each customer's product.

### Regulatory Requirements

All Plexus manufacturing and engineering facilities are certified to a baseline Quality Management System standard per ISO9001:2015. We have capabilities to assemble finished medical devices meeting FDA Quality Systems Regulation requirements and similar regulatory requirements in other countries.

We have additional certifications and/or registrations held by certain facilities in the following regions:

|   | AMER | APAC | EMEA |
|---|------|------|------|
| Medical Standard ISO 13485:2016                                   | X    | X    | X    |
| 21 CFR Part 820 (FDA) (Finished Medical)                          | X    | X    | X    |
| JMGP accreditation  | X    | X    | X    |
| GMP-Korea certification   |      | X    | X    |
| ANVISA accreditation  |      | X    | X    |
| Environmental Standard ISO - 14001                                | X    | X    | X    |
| Environmental Standard OSHAS 18001                                |      | X    | X    |
| ANSI/ESD (Electrostatic Discharge Control Program) S20.20         | X    | X    |      |
| ITAR (International Traffic and Arms Regulation) self-declaration | X    |      |      |
| Aerospace Standard AS9100   | X    | X    | X    |
| NADCAP certification  | X    | X    | X    |
| FAR 145 certification (FAA repair station)                        | X    |      |      |
| EASA repair approval  | X    |      |      |
| ATEX/IECEX certification  |      |      | X    |
| IRIS certification (Railway)                                      |      | X    |      |
| ISO 50001:2011 (energy management)                                |      |      | X    |

### Customers and Market Sectors Served

Our customers range from large multinational companies to smaller emerging technology companies. During fiscal 2019, we served approximately 140 customers. We offer advanced design and production capabilities, allowing our customers to concentrate on their core competencies. Plexus helps accelerate our customers' time to market, reduce their investment in engineering and manufacturing capacity, and optimize total product cost.

General Electric Company ("GE") accounted for 12.4%, 12.3% and 12.2% of our net sales during fiscal 2019, 2018 and 2017, respectively. No other customer accounted for 10.0% or more of our net sales in any of the last three fiscal years.

Net sales to our largest customers may vary from time to time depending on the size and timing of customer program commencements, terminations, delays, modifications and transitions. We generally do not obtain firm, long-term purchase commitments from our customers. Customers' forecasts can and do change as a result of changes in their end-market demand and other factors, including global economic conditions. Any material change in forecasts or orders from these major accounts, or other customers, could materially affect our results of operations. The loss of any major customer could have a significant negative impact on our financial results. In addition, as our percentage of net sales to customers in a specific sector becomes larger relative to other sectors, we will become increasingly dependent upon the economic and business conditions affecting that sector. Many of our large customers contract with us through multiple independent divisions, subsidiaries,

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production facilities or locations. We believe that in most cases our sales to any one such division, subsidiary, facility or location are independent of sales to others.

The distribution of our net sales by market sectors for the indicated fiscal years is shown in the following table:

| Industry                 | 2019 | 2018 | 2017 |
|--------------------------|------|------|------|
| Healthcare/Life Sciences | 38%  | 36%  | 34%  |
| Industrial/Commercial    | 31%  | 32%  | 31%  |
| Aerospace/Defense        | 19%  | 16%  | 16%  |
| Communications           | 12%  | 16%  | 19%  |
| Total net sales          | 100% | 100% | 100% |

Although our current business development focus is based on our targeted market sectors, we evaluate our financial performance and allocate our resources geographically (see Note 11 in Notes to Consolidated Financial Statements regarding our reportable segments). Plexus offers a uniform array of services for customers in each market sector and, aside from the specific go-to-market teams, we do not dedicate operational equipment, personnel, facilities or other resources to particular market sectors, nor internally track our costs and resources per market sector.

### **Materials and Suppliers**

We typically purchase raw materials, including PCBs and electronic components, from manufacturers and distributors. Under certain circumstances, we will purchase components from brokers, customers, or competitors. The key electronic components we purchase include: specialized components, semiconductors, interconnect products, electronic subassemblies (including memory modules, power supply modules and cable and wire harnesses), inductors, resistors, and capacitors.

We also purchase non-electronic, typically custom engineered, components used in manufacturing and higher-level assembly. These components include molded/formed plastics, sheet metal fabrications, aluminum extrusions, robotics, motors, vision sensors, motion/actuation, fluidics, displays, die castings and various other hardware and fastener components. These components are sourced from both Plexus preferred suppliers and customer directed suppliers. Components range from standard to highly customized and vary widely in terms of market availability and price.

Component shortages and subsequent allocations by our suppliers are an inherent risk to the electronics industry, and have particularly been an issue for us and the industry from time to time. We discuss the causes of these shortages more fully in "Risk Factors" in Part I, Item 1A herein. We actively manage our business to minimize our exposure to material and component shortages.

Plexus' global supply chain management organization attempts to create strong supplier alliances and ensure a steady flow of components and products at competitive prices. We strive to achieve these goals through advanced supply chain solutions we develop in partnership with our customers, risk management tools and global expediting processes. Plexus can often influence the selection of new product components when engaged to provide design and development solutions.

### **Competition**

Plexus operates in a highly competitive market, with a goal to be best-in-class at meeting the unique needs of our customers. With integrated Design and Development, Supply Chain Solutions, New Product Introduction, Manufacturing and Aftermarket Services, we proactively tackle tough challenges throughout the product lifecycle. A number of competitors may provide electronics manufacturing and engineering services similar to Plexus. Others may be more established in certain industry sectors, or have greater financial, manufacturing, or marketing resources. Smaller competitors compete mainly in specific sectors and within limited geographic areas. Plexus also competes with in-house capabilities of current and potential customers. Plexus maintains awareness and knowledge of our competitors' capabilities in order to remain highly competitive within our target markets.

### **Intellectual Property**

We own various service marks that we use in our business, which are registered in the trademark offices of the United States and other countries. Although we own certain patents, they are not currently material to our business. We do not have any material copyrights.



## **Information Technology**

Our core solutions for manufacturing facilities include a single-instance Enterprise Resource Planning ("ERP") system, as well as Product Data Management and Advanced Planning and Scheduling systems, along with consistent solutions for warehouse management and shop floor execution, that support our global operations. This consistency augments our other management information systems, allowing us to standardize our ability to translate data from multiple production facilities into operational and financial information required by the business. The related software licenses are of a general commercial character on terms customary for these types of agreements. Enhancing cybersecurity continues to be a priority and we have several initiatives underway that are intended to further advance our security posture.

## **Environmental Compliance**

We are subject to a variety of environmental regulations relating to air emission standards and the use, storage, discharge and disposal of hazardous chemicals used during our manufacturing process. We believe that we are in compliance with all federal, state, and foreign environmental laws and do not anticipate any significant expenditures in maintaining our compliance; however, there can be no assurance that violations will not occur which could have a material adverse effect on our financial results.

## **Social Responsibility**

Plexus is committed to social responsibility throughout our global business operations. As a member of the Responsible Business Alliance ("RBA"), we have taken an active role in improving not only our own practices, but influencing and holding others accountable throughout our supply chain to improve their focus on important social principles. We consider a variety of standards for socially responsible practices, including, but not limited to, local and federal legal requirements in the jurisdictions where we operate, the International Organization for Standardization's "Guidance for Social Responsibility" (ISO 26000) and standards established by the RBA. Our commitment to social responsibility focuses on four key areas: (1) responsible employer, (2) community steward, (3) global citizen and (4) industry steward.

**Responsible Employer** - We advocate for diversity, combat human trafficking activities, encourage and provide employee development opportunities, strive to ensure safe and healthy working conditions, promote an appropriate work/life balance for our employees, encourage wellness initiatives and reinforce responsible values in our culture.

**Community Steward** - We promote and financially contribute to programs involving science and technology in education and causes that make a meaningful impact to the communities in which we operate. We encourage our employees' involvement in community charitable organizations, as well as volunteerism, and we partner with community organizations to promote local business.

**Global Citizen** - We actively work to reduce waste, water use and greenhouse gas emissions from our operations, work with suppliers to develop similar programs and partner with customers to help design more efficient and environmentally friendly products.

**Industry Steward** - We take an active role in industry coalitions focused on improving working conditions around the world, the environment and ethical business practices. We train our supply chain on important social initiatives, such as detecting and preventing forced labor, and we collaborate with customers to advance sustainability initiatives.

## **Employees**

We make a considerable effort, and invest at all levels of the organization, to maintain a highly qualified and engaged work force. We offer enhanced career opportunities to many of our employees. Our human resources department identifies career objectives and monitors specific skill development opportunities for employees with potential for advancement. We have a policy of involvement and consultation with employees at every facility and strive for continuous improvement at all levels.

We employ over 19,000 employees. Given the quick response times required by our customers, we seek to maintain flexibility to scale our operations as necessary to maximize efficiency. To do so we use skilled temporary labor in addition to our full-time employees. Approximately 250 and 1,500 of our employees in the United Kingdom and Mexico, respectively, are covered by union agreements. These union agreements are typically renewed at the beginning of each year, although in a few cases these agreements may last two or more years. Our employees in China, Germany, Malaysia, Romania and the United States are not covered by union agreements. We have no history of labor disputes at any of our facilities, and we believe that our employee relationships are generally positive and stable.

## ITEM 1A. RISK FACTORS

### **Our net sales and operating results may vary significantly from period to period.**

Our quarterly and annual results may vary significantly depending on various factors, many of which are beyond our control. These factors include:

- the volume and timing of customer demand relative to our capacity
- the effects of shortages and delays in obtaining components as a result of economic cycles, natural disasters or otherwise
- the life-cycle of our customers' technology-dependent products
- customers' operating results and business conditions
- failure of our customers to pay amounts due to us
- changes in our, and our customers', sales mix, as well as the volatility of these changes
- variations in sales and margins among geographic regions and market sectors
- changes in tariffs, trade agreements and other trade protection measures
- varying gross margins among different programs, including as a result of pricing concessions to certain customers
- claims alleging defective goods or services or breaches of contractual requirements
- challenges associated with the engagement of new customers or additional programs or services for existing customers
- disengagements with customers
- changes in customer supply chain strategies
- the timing of our expenditures in anticipation of future orders
- our effectiveness in planning and executing production, and managing inventory, fixed assets and manufacturing processes
- changes in the cost and availability of labor and components
- changes in exchange rates
- changes in accounting rules
- changes in tax laws, potential tax disputes, or negative or unforeseen tax consequences, and
- changes in U.S. and global economic and political conditions and world events.

### **The majority of our net sales come from a relatively small number of customers and a limited number of market sectors; if we lose a major customer or if there are challenges in those market sectors, our net sales and operating results could decline significantly.**

Net sales to our 10 largest customers have represented a majority of our net sales in recent periods. Our 10 largest customers accounted for 54.6% of our net sales for the fiscal year ended September 28, 2019, and 57.2% of our net sales for the fiscal year ended September 29, 2018. During each of the fiscal years ended September 28, 2019, and September 29, 2018, there was one customer that represented 10.0% or more of our net sales.

Our major customers may vary from period to period, and our major customers may not continue to purchase services from us at current levels, or at all, particularly given the volatile nature of certain programs. In any given period, a higher portion of our sales may be concentrated with customers or projects with relatively lower margins, which could adversely affect our results. We have experienced from time to time, and in the future may experience, significant disengagements with customers or of programs, adverse changes in customer supply chain strategies and the end of life of significant programs. Especially given our discrete number of customers, significant reductions in net sales to any of our major customers, the loss of major customers or our failure to make appropriate choices as to the customers we serve could seriously harm our business and results of operations in such periods.

In addition, we focus our sales efforts on customers in only a few market sectors. Each of these sectors is subject to macroeconomic conditions as well as trends and conditions that are sector specific. Economic, business or regulatory conditions that affect the sector, or the Company's failure to choose appropriate sectors, can particularly impact Plexus. For instance, sales in the Healthcare/Life Sciences sector are substantially affected by trends in the healthcare industry, such as government reimbursement rates and uncertainties relating to the U.S. healthcare sector generally. Additionally, the semiconductor industry has historically been subject to significant cyclical volatility.

Further, potential reductions in U.S. government agency spending, including those due to budget cuts or other political developments or issues, could affect opportunities in all of our market sectors. Any weakness in our customers' end markets could affect our business and results of operations.

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We rely on timely and regular payments from our customers, and also have receivables factoring agreements in place; therefore, deterioration in the payment experience with or credit quality of our major customers, or issues with the counterparties to our factoring agreements, could have a material adverse effect on our financial condition and results of operations. The inability or failure of our major customers to meet their obligations to us or their bankruptcy, insolvency or liquidation may adversely affect our business, financial condition and results of operations.

From time to time, our customers, including formerly major customers, have been affected by merger, acquisition, divestiture and spin-off activity. While these transactions may present Plexus with opportunities to capture new business, they also create the risk that these customers will partially reduce their purchases or completely disengage from us as a result of transitioning such business to Plexus' competitors or deciding to manufacture the products internally.

### **Plexus is a multinational corporation and operating in multiple countries exposes us to increased risks, including adverse local developments and currency risks.**

We have operations in many countries; operations outside of the U.S. in the aggregate represent a majority of our net sales and operating income, with a particular concentration in Malaysia. In addition, although we have repatriated a substantial amount of cash since the enactment of the U.S. Tax Cuts and Jobs Act ("U.S. Tax Reform" or "Tax Reform"), a significant amount of our cash balances remain held outside of the U.S., with a particular concentration in Malaysia and China. We purchase a significant number of components manufactured in various countries. These international aspects of our operations, which are likely to increase over time, subject us to the following risks that could materially impact our operations and operating results:

- economic, political or civil instability
- transportation delays or interruptions
- exchange rate fluctuations
- potential disruptions or restrictions on our ability to access cash amounts held outside of the U.S.
- changes in labor markets, such as government-mandated wage increases, increases to minimum wage requirements, changes in union-related laws and regulations, limitations on immigration or the free movement of labor or restrictions on the use of migrant workers, and difficulties in appropriately staffing and managing personnel in diverse cultures
- compliance with laws, such as the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act and the E.U. General Data Protection Regulation, applicable to companies with global operations
- changes to the North American Free Trade Agreement ("NAFTA"), including as a result of the expected approval of the United States-Mexico-Canada Agreement (the "USMCA")
- changes in the taxation of earnings both in the U.S. and in other countries
- reputational risks related to, among other factors, varying standards and practices among countries
- changes in duty rates
- significant natural disasters and other events or factors impacting local infrastructure
- the impact of the United Kingdom's expected exit from the European Union ("Brexit")
- the effects of other international political developments, such as tariffs, embargoes, sanctions, boycotts, trade wars, energy disruptions, trade agreements and changes in trade policies, including those which may be effected by the current U.S. presidential administration and other countries' reactions to those actions, and
- regulatory requirements and potential changes to those requirements.

We continue to monitor our risk associated with foreign currency and have entered into limited forward contracts to address this risk. As our international operations continue to expand, our failure to appropriately address foreign currency transactions or the currency exposures associated with assets and liabilities denominated in non-functional currencies could adversely affect our consolidated financial condition, results of operations and cash flows. In addition, developments affecting particular countries can adversely affect our ability to access cash or other assets held in such countries.

A significant portion of our operations currently occurs in the APAC region, particularly in Malaysia. The concentration of our operations, assets and profitability in that region exposes us to adverse developments, economic, political or otherwise, in those countries.

Changes in policies by the U.S. or other governments could negatively affect our operating results due to trade wars, changes in duties, tariffs or taxes, currency exchange rate fluctuations, or limitations on currency or fund transfers, as well as government-imposed restrictions on producing certain products in, or shipping them to, specific countries. In 2018, Canada, Mexico and the United States negotiated the USMCA, which is intended to update and replace NAFTA and is subject to ratification by all three countries before it becomes fully effective, with many of its provisions not effective until calendar year 2020. The USMCA is similar to NAFTA; however, it contains several new compliance obligations addressing such issues as rules of origin, labor

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standard, certificate of origin documentation and de minimis thresholds, as well as new policies on labor and environmental standards, intellectual property protections and some digital trade provisions. While certain aspects of the USMCA may be positive, others, including potentially higher regulatory compliance costs, may have a negative impact on our business and adversely affect our operations in Mexico. Also, our current facilities in Mexico operate under the Mexican Maquiladora ("IMMEX") program. This program provides for reduced tariffs and eased import regulations. We could be adversely affected by changes in the IMMEX program or our failure to comply with its requirements. Additionally, increasing tariffs and other trade protection measures between the U.S. and China may affect the cost of our products originating in China as well as the demand for our products manufactured in China in the event our customers reduce operations in China as a result of such tariffs or trade protection measures. These actions could also affect the cost and/or availability of components that we procure from suppliers in China.

The United Kingdom's expected exit from the European Union has resulted in currency exchange rate fluctuations and volatility. The terms of Brexit are not yet known as negotiations continue between the U.K. and the E.U. Given the lack of comparable precedent, the implications of Brexit, or how such implications might affect the Company (which also has operations in Scotland), remain unclear at this time. Brexit could, among other impacts, disrupt trade and the movement of goods, services and people between the United Kingdom and the European Union or other countries, disrupt the stability of the European Union generally, and lead to a downturn in consumer sentiment as well as overall negative economic growth, as well as create legal, political, regulatory and global economic uncertainty. These and other potential implications could adversely affect the Company's business and financial results.

### **Our customers do not make long-term commitments and may cancel or change their production requirements.**

Companies in our industry must respond quickly to the requirements of their customers in both design and production. We generally do not obtain firm, long-term purchase commitments from our customers, and frequently do not have visibility as to their future demand. Customers also cancel requirements, change engineering or other service requirements, change production quantities, delay production, or revise or fail to meet their forecasts for a number of reasons that are beyond our control, and customer expectations can change requiring us to take on additional commitments or risks. In addition, customers may also fail to meet their commitments to us or our expectations. The success of our customers' products in the market and the strength of the markets themselves affect our business. Cancellations, reductions or delays by a significant customer, or by a group of customers, could seriously harm our operating results and negatively affect our working capital levels. Such cancellations, reductions or delays have occurred from time to time and may continue to occur in the future.

In addition, we make significant decisions based on our estimates of customers' requirements, including determining the levels of business that we will seek and accept, production schedules, component procurement commitments, working capital (including inventory) management, facility and capacity requirements, personnel needs and other resource requirements. The short-term nature of our customers' commitments and the possibility of rapid changes in demand for their products reduce our ability to accurately estimate their future requirements. Because certain of our operating expenses are fixed, a reduction in customer demand can harm our operating results. The need for us to correctly anticipate component needs is amplified in times of shortages. The current environment of tight component supply can increase the difficulties and cost of anticipating changing demand. Moreover, because our margins vary across customers and specific programs, a reduction in demand with higher margin customers or programs will have a more significant adverse effect on our operating results.

Rapid increases in customer requirements may stress personnel and other capacity resources. We may not have sufficient resources, including personnel and components, at any given time to meet all of our customers' demands or to meet the requirements of a specific program, which could result in a loss of business from such customers.

### **We have a complex business model, and our failure to properly manage or execute on that model, as well as an inability to maintain our engineering, technological and manufacturing process expertise, could adversely affect our operations, financial results and reputation.**

Our business model focuses on products and services in the highly complex products and demanding regulatory environments segment of our industry. Our customers' products typically require significant production and supply-chain flexibility, in some cases necessitating optimized demand-pull-based manufacturing and supply chain solutions across an integrated global platform. The products we manufacture are also typically complex, heavily regulated, and require complicated configuration management and direct order fulfillment capabilities to global end customers. In addition, we offer Aftermarket Services to our customers, which add to the complexity of our business model.

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Our business model requires a great degree of attention, flexibility and resources. These resources include working capital, management and technical personnel, and the development and maintenance of systems and procedures to manage diverse manufacturing, regulatory and service requirements for multiple programs of varying sizes simultaneously, including in multiple locations and geographies. We also depend on securing and ramping new customers and programs and on transitioning production for new customers and programs, which creates added complexities related to managing the start-up risks of such projects, especially for companies that did not previously outsource such activities.

The complexity of our service model, which encompasses a broad range of services in the product realization process including Design and Development, Supply chain Solutions, New Product Introduction, Manufacturing and Aftermarket Services, often results in complex and challenging contractual obligations as well as commitments from us to our customers. In addition, customer expectations have also increased in recent years with respect to certain capabilities, commitments, allocation of risk and compliance with third party standards. If we fail to meet those obligations, are otherwise unable to execute on our commitments or unsuccessfully mitigate such risks, it could result in claims against us or adversely affect our reputation and our ability to obtain future business, as well as impair our ability to enforce our rights (including those related to payment) under those contracts.

In addition, if we fail to effectively manage or execute our business model, we also may lose customer confidence and our reputation may suffer. The Company's reputation is the foundation of our relationships with key stakeholders. If we are unable to effectively manage real or perceived issues, which could negatively impact sentiments toward the Company, our ability to maintain or expand business opportunities could be impaired and our financial results could suffer on a going-forward basis.

Many of the markets for our manufacturing, engineering, aftermarket and other services are characterized by rapidly changing technology and evolving process developments. Our internal processes are also subject to these factors. The continued success of our business will depend upon our continued ability to:

- retain our qualified engineering and technical personnel, and attract additional qualified personnel, especially in times of tight labor markets
- maintain and enhance our technological capabilities
- choose and maintain appropriate technological and service capabilities
- successfully manage the implementation and execution of information systems
- develop and market services that meet changing customer needs
- effectively execute our services and perform to our customers' expectations, and
- successfully anticipate, or respond to, technological changes on a cost-effective and timely basis.

Although we believe that our operations utilize the assembly and testing technologies, equipment and processes that are currently required by our customers, we cannot be certain that we will maintain or develop the capabilities required by our customers in the future. The emergence of new technologies, industry standards or customer requirements may render our equipment, inventory or processes obsolete or noncompetitive. In addition, we may have to acquire new design, assembly and testing technologies and equipment to remain competitive, as well as offer new or additional services, all of which may require significant expense or capital investment that could reduce our liquidity and negatively affect our operating results. Our failure to anticipate and adapt to our customers' changing technological needs and requirements, or to perform to their expectations or standards, as well as our need to maintain our personnel and other resources during times of fluctuating demand, could have an adverse effect on our business.

### **We experience raw material and component shortages and price fluctuations.**

We generally do not have long-term supply agreements. We experience, and in the future will likely continue to experience, raw material and component shortages due to supplier capacity constraints, or their failure to deliver. We also experience increased lead times to procure certain types of components from time to time, including during fiscal 2019. Such constraints can also be caused by world events, such as government policies, tariffs, trade wars, trade disputes and trade protection measures, terrorism, armed conflict, natural disasters, economic recession, increased demand due to economic growth, preferential allocations and other localized events. We currently rely on a limited number of suppliers for many of the raw materials and components used in the assembly process and, in some cases, may be required to use suppliers that are the sole provider of a particular raw material or component. Such suppliers may encounter quality problems, labor disputes, financial difficulties or business continuity issues that could preclude them from delivering raw materials or components timely or at all. Supply shortages and delays in deliveries of raw materials or components have in some cases resulted in delayed production of assemblies, which have increased our inventory levels and adversely affected our operating results in certain periods. Additionally, a delay in obtaining a particular component may result in other components for the related project being held for longer periods of time, increasing working capital and risking inventory obsolescence. An inability to obtain sufficient

inventory on a timely basis or successfully execute on our business continuity processes, could also harm relationships with our customers.

In addition, raw materials and components that are delivered to us may not meet our specifications or other quality criteria. Certain materials provided to us may be counterfeit or violate the intellectual property rights of others. The need to obtain replacement materials and parts may negatively affect our manufacturing operations. The inadvertent use of any such parts or products may also give rise to liability claims. Further, the commitments made to us by our suppliers, and the terms applicable to such relationships, may not match all the commitments we make to, and the terms of our arrangements with, our customers, and such variations may lead us to incur additional expense or liability and/or cause other disruptions to our business.

Raw material and component supply shortages and delays in deliveries, along with other factors such as tariffs and trade disputes, can also result in increased pricing. While many of our customers permit quarterly or other periodic adjustments to pricing based on changes in raw material or component prices and other factors, we may bear the risk of price increases that occur between any such repricing or, if such repricing is not permitted, during the balance of the term of the particular customer contract. Conversely, as a result of our pricing strategies and practices, raw material and component price reductions have contributed positively to our operating results in the past. Our inability to continue to benefit from such reductions in the future could adversely affect our operating results.

**Our services involve other inventory risk.**

Most of our services are provided on a turnkey basis, under which we purchase some, or all, of the required materials and components based on customer forecasts or orders. Suppliers may require us to purchase materials and components in minimum order quantities that may exceed customer requirements. A customer's cancellation, delay or reduction of forecasts or orders can also result in excess inventory or additional expense to us. Engineering changes by a customer may result in obsolete materials or components. While we attempt to cancel, return or otherwise mitigate excess and obsolete inventory, require customers to reimburse us for these items and/or price our services to address related risks, we may not actually be reimbursed timely or in full, be able to collect on these obligations or adequately reflect such risks in our pricing. In addition to increasing inventory in certain instances to support new program ramps, we may also increase inventory if we experience component shortages or longer lead times for certain components in order to maintain a high level of customer service. In such situations, we may procure components earlier, which has led to an increase in inventory in the short term and may lead to increased, excess, or obsolete inventory in the future. Excess or obsolete inventory, the need to acquire increasing amounts of inventory due to shortages, customer demand or otherwise, or other failures to manage our working capital, could adversely affect our operating results, including our return on invested capital.

In addition, we provide managed inventory programs for some of our customers under which we hold and manage finished goods or work-in-process inventories. These managed inventory programs result in higher inventory levels, further reduce our inventory turns and increase our financial exposure with such customers. In addition, our inventory may be held at a customer's facility or warehouse, or elsewhere in a location outside of our control, which may increase the risk of loss. Even though our customers generally have contractual obligations to purchase such inventories from us, we remain subject to customers' credit risks as well as the risk of potential customer default and the need to enforce those obligations.

**Our products and services are for end markets that require technologically advanced products.**

Factors affecting the technology-dependent end markets that we serve could adversely affect our customers and, as a result, Plexus. These factors include:

- the inability of our customers to adapt to rapidly changing technologies and evolving industry standards that can result in short product life-cycles
- the inability of our customers to develop and market their products, some of which are new and untested
- the potential that our customers' products may become obsolete, and
- the potential failure of our customers' products to gain widespread commercial acceptance.

Even if our customers successfully respond to these market challenges, their responses, including any consequential changes we must make in our business relationships with them and our production for, or services offered to, them, or to our supply chain for related components, can affect our production cycles, inventory management and results of operations.

**Challenges associated with the engagement of new customers or programs, or the provision of new services, could affect our operations and financial results.**

Our engagement with new customers, as well as the addition of new programs or types of services for existing customers, can present challenges in addition to opportunities. We must initially determine whether it would be in our interests from a business perspective to pursue a particular potential new customer, program or service, including evaluating whether the customer, program or service fits with our value proposition as well as its potential end-market success. If we make the decision to proceed, we need to ensure that our terms of engagement, including our pricing and other contractual provisions, appropriately reflect the strategic nature of the customer, anticipated costs, risks and rewards. The failure to make prudent engagement decisions or to establish appropriate terms of engagement could adversely affect our profitability and margins.

Also, there are inherent risks associated with the timing and ultimate realization of anticipated revenue from a new program or service; these factors can sometimes extend for a significant period. Some new programs or services require us to devote significant capital and personnel resources to new technologies and competencies. We may not meet customer expectations, which could damage our relationships with the affected customers and impact our ability to deliver conforming product or services on a timely basis. Further, the success of new programs may depend heavily on factors such as product reliability, market acceptance, regulatory approvals or economic conditions. The failure of a new program to meet expectations on these factors, or our inability to effectively execute on a new program's or service's requirements, could result in lost financial opportunities and adversely affect our results of operations.

**Start-up costs and inefficiencies related to new, recent or transferred programs can adversely affect our operating results.**

In recent years, ramping new programs has been a key contributor to our revenue growth. The management of resources in connection with the establishment of new or recent programs and customer relationships, as well as program transfers between facilities and geographies, and the need to estimate required resources in advance of production can adversely affect our gross and operating margins and level of working capital. These factors are particularly evident in the early stages of the life-cycle of new programs, which typically lack a track record of order volume and timing as well as production efficiencies in the early stages. We typically manage multiple new programs at any given time; therefore, we are exposed to these factors in varying magnitudes. In addition, if any of these programs or customer relationships were delayed or terminated, our operating results could be negatively impacted, particularly in the short-term.

The effects of these start-up costs and inefficiencies can also occur when we transfer programs between locations and geographies. We conduct these transfers on a regular basis to meet customer needs, seek long-term efficiencies or respond to market conditions, as well as due to facility openings and closures. We may also be required to transfer projects between facilities due to tariffs and other trade measures impacting particular countries such as China. Although we try to recover costs from our customers and minimize the potential losses arising from transitioning customer programs between our facilities and geographies, we may not be successful and there are inherent risks that such transitions can result in operational inefficiencies and the disruption of programs and customer relationships.

While these factors tend to affect new, recent or transferred programs, they can also impact more mature, or maturing programs and customer relationships, especially programs where end-market demand can be somewhat volatile.

**Failure to manage periods of growth or contraction may seriously harm our business.**

Our industry frequently sees periods of expansion and contraction. We regularly contend with these issues and must carefully manage our business to meet changing customer and market requirements. If we fail to manage these growth and contraction decisions effectively, as well as fail to realize the anticipated benefits of these decisions, we can find ourselves with either excess or insufficient resources and our business, as well as our profitability, may suffer.

Expansion and consolidation, including the transfer of operations to new or other facilities or due to acquisitions, can inherently include additional costs and start-up inefficiencies. For example, in fiscal 2019 and the first quarter of fiscal 2020 construction was completed on additional facilities in Penang, Malaysia, and Guadalajara, Mexico, respectively, which are intended to supplement our footprint in those particular regions. If we are unable to effectively manage our recent or future expansions and consolidations, or related anticipated net sales are not realized, our operating results could be adversely affected. In addition, we may expand our operations in new geographical areas where currently we do not operate. Other risks of current or future expansions, acquisitions and consolidations include:

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- the inability to successfully integrate additional facilities or incremental capacity and to realize anticipated efficiencies, economies of scale or other value
- challenges faced as a result of transitioning programs
- incurrence of restructuring costs or other charges that may be insufficient or may not have their intended effects
- additional fixed or other costs, or selling and administrative expenses, which may not be fully absorbed by new business
- a reduction of our return on invested capital, including as a result of excess inventory or excess capacity at new facilities, as well as the increased costs associated with opening new facilities
- difficulties in the timing of expansions, including delays in the implementation of construction and manufacturing plans
- diversion of management's attention from other business areas during the planning and implementation of expansions
- strain placed on our operational, financial and other systems and resources, and
- inability to locate sufficient customers, employees or management talent to support the expansion.

Periods of contraction or reduced net sales, or other factors affecting particular sites, create other challenges. We must determine whether facilities remain viable, whether staffing levels need to be reduced, and how to respond to changing levels of customer demand. While maintaining excess capacity or higher levels of employment entail short-term costs, reductions in capacity or employment could impair our ability to respond to new opportunities and programs, market improvements or to maintain customer relationships. Our decisions to reduce costs and capacity can affect our short-term and long-term results. When we make decisions to reduce capacity or to close facilities, we frequently incur restructuring costs.

In addition, to meet our customers' needs, particularly when the production requirements of certain products are site-specific, to achieve increased efficiencies, or to address factors affecting specific locations, such as tariffs and trade disputes, we sometimes require additional capacity in one location while reducing capacity in another. Since customers' needs and market conditions can vary and change rapidly, we may find ourselves in a situation where we simultaneously experience the effects of contraction in one location and expansion in another location. We may also encounter situations where our lack of a physical presence in certain locations may limit or foreclose opportunities.

### **An inability to successfully manage the procurement, development, implementation or execution of information systems, or to adequately maintain these systems and their security, as well as to protect data and other confidential information, may adversely affect our business and reputation.**

As a global company with a complex business model, we are heavily dependent on our information systems to support our customers' requirements and to successfully manage our business. Any inability to successfully manage the procurement, development, implementation, execution or maintenance of our information systems, including matters related to system and data security, cybersecurity, privacy, reliability, compliance, performance and access, as well as any inability of these systems to fulfill their intended purpose within our business, could have an adverse effect on our business.

In the ordinary course of business, we collect and store sensitive data and information, including our proprietary and regulated business information and that of our customers, suppliers and business partners, as well as personally identifiable information about our employees. Our information systems, like those of other companies, are susceptible to malicious damage, intrusions and outages due to, among other events, viruses, cyber threats, industrial espionage (internal or external), hacking, break-ins and similar events, other breaches of security, natural disasters, power loss or telecommunications failures. We have taken steps to maintain adequate data security and address these risks and uncertainties by implementing security technologies, internal controls, network and data center resiliency, redundancy and recovery processes, as well as by purchasing insurance; however, these measures may not be sufficient. Moreover, we are subject to increasing expectations and data security requirements from our customers, including those related to the Federal Acquisition Regulation, including the Defense Federal Acquisition Regulation Supplement. Any operational failure or breach of security from increasingly sophisticated cyber threats could lead to the loss or disclosure of our or our customers' financial, product or other confidential information, result in adverse regulatory or other legal actions and have a material adverse effect on our business and reputation.

In addition, we must comply with increasingly complex and rigorous regulatory standards enacted to protect business and personal data in the U.S. and elsewhere. For example, the European Union's General Data Protection Regulation (the "GDPR") and similar legislation in jurisdictions in which we operate impose additional obligations on companies regarding the handling of personal data and provides certain individual privacy rights to persons whose data is stored. Compliance with existing, proposed and recently enacted laws and regulations can be costly; any failure to comply with these regulatory standards could subject us to legal and reputational risks. Misuse of or failure to secure personal information could also result in violation of data privacy laws and regulations, proceedings against the Company by governmental entities or others, fines and penalties, damage to our reputation and credibility and could have a negative impact on our business and results of operations.



**Changes in tax laws, potential tax disputes, negative or unforeseen tax consequences or further developments affecting our deferred tax assets could adversely affect our results.**

The Company's effective tax rate is highly dependent upon the geographic mix of earnings across the jurisdictions where we operate. Changes in tax laws or tax rates in those jurisdictions, including, but not limited to, as a result of actions by the U.S. (including additional guidance and interpretations related to U.S. Tax Reform) or other countries or Brexit, could continue to have a material impact on our operating results. Among other things, the Company has been, and is expected to continue to be, affected by the global intangible low-taxed income ("GILTI") provisions added by U.S. Tax Reform and related new tax legislation, interpretations and guidance. The Company's effective tax rate may also be impacted by tax holidays and other various tax credits granted by local taxing authorities. In addition, the implementation of U.S. Tax Reform has required the use of estimates, which may be refined in future periods. All incentives, including a tax holiday granted to our Malaysian subsidiary, are subject to certain terms and conditions. While we expect to comply with these conditions, we would experience adverse tax consequences if we are found to not be in compliance or if the terms and conditions of the tax holiday are unfavorably altered by the local taxing authorities.

The Company's taxable income in any jurisdiction is dependent upon the local taxing authority's acceptance of our operational and intercompany transfer pricing practices as being at "arm's length." Due to inconsistencies among jurisdictions in the application of the arm's length standard, the Company's transfer pricing methods may be challenged and, if not upheld, could increase our income tax expense. Risks associated with transfer pricing adjustments are further highlighted by the global initiative from the Organisation for Economic Cooperation and Development ("OECD") called the Base Erosion and Profit Shifting ("BEPS") project. The BEPS project is challenging longstanding international tax norms regarding the taxation of profits from cross-border business. Given the scope of the Company's international operations and the fluid and uncertain nature of how the BEPS project might ultimately lead to future legislation, it is difficult to assess how any changes in tax laws would impact the Company's income tax expense.

The Company reviews the probability of the realization of our net deferred tax assets each period based on forecasts of taxable income by jurisdiction. This review uses historical results, projected future operating results based upon approved business plans, eligible carryforward periods, tax planning opportunities and other relevant considerations. Adverse changes in the profitability and financial outlook in each of our jurisdictions may require the creation of an additional valuation allowance to reduce our net deferred tax assets. Such changes could result in material non-cash expenses in the period in which the changes are made.

**We and our customers are subject to increasingly extensive government regulations and industry standards; a failure to comply with current and future regulations and standards could have an adverse effect on our business, customer relationships, reputation and profitability.**

We are subject to extensive government regulation and industry standards (as well as customer-specific standards) relating to the products we design, manufacture and service as well as how we conduct our business, including regulations and standards relating to labor and employment practices, workplace health and safety, the environment, sourcing and import/export practices, the market sectors we support and many other facets of our operations. The regulatory climate in the U.S. and other countries has become increasingly complex and fragmented, and regulatory activity has increased in recent periods. A failure to comply with such regulations or standards could have an adverse effect on our reputation, customer relationships, profitability and results of operations.

Particularly as a publicly held company, we are subject to increasingly stringent laws, regulations and other requirements, including those affecting, among other areas, our accounting, internal controls, data protection and privacy, corporate governance practices, securities disclosures and reporting.

Governments worldwide are becoming increasingly aggressive in adopting and enforcing anti-corruption laws. The U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act and China's Criminal Law and Anti-Unfair Competition Law, among others, apply to us and our operations.

Changes in healthcare laws and regulations may significantly affect the provision of both healthcare services and benefits in the U.S. and may impact our cost of providing our employees and retirees with health insurance or benefits, and may also impact various other aspects of our business, such as the demand for products in our Healthcare/Life Sciences sector.

Our Healthcare/Life Sciences sector is subject to statutes and regulations covering the design, development, testing, manufacturing and labeling of medical devices and the reporting of certain information regarding their safety, including Food and Drug Administration ("FDA") regulations and similar regulations in other countries.

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We also design, manufacture and service products for certain industries, including certain applications where the U.S. government is the end customer, that face significant regulation by the Department of Defense, Department of State, Department of Commerce, Federal Aviation Authority, and other governmental agencies in the U.S. as well as in other countries, and also under the Federal Acquisition Regulation.

In addition, whenever we pursue business in new sectors and subsectors, or our customers pursue new technologies or markets, we need to navigate the potentially heavy regulatory and legislative burdens of such sectors, as well as standards of quality systems, technologies or markets.

Failure to comply with these laws and regulations can result in, among other consequences, fines, injunctions, civil penalties, criminal prosecution, recall or seizure of devices, or total or partial suspension of production, including debarment, as well as damage to our reputation.

The regulatory climate can itself affect the demand for our services. For example, government reimbursement rates and other regulations, as well as the financial health of healthcare providers, and changes in how healthcare in the U.S. is structured, and how medical devices are taxed, could affect the willingness and ability of end customers to purchase the products of our customers in this sector as well as impact our margins.

Our customers are also required to comply with various government regulations, legal requirements and industry standards, including many of the industry-specific regulations discussed above. Our customers' failure to comply could affect their businesses, which in turn would affect our sales to them. In addition, if our customers are required by regulation or other requirements to make changes in their product lines, these changes could significantly disrupt particular programs for these customers and create inefficiencies in our business.

### **A failure to comply with customer-driven policies and standards, and third-party certification requirements or standards, including those related to social responsibility, could adversely affect our business and reputation.**

In addition to government regulations and industry standards, our customers may require us to comply with their own or third-party quality standards, business policies, commercial terms, or other social responsibility policies or standards, which may be more restrictive than current laws and regulations as well as our pre-existing policies and/or terms with our suppliers, before they commence, or continue, doing business with us. Such policies or standards may be customer-driven, established by the industry sectors in which we operate or imposed by third party organizations.

Our compliance with these heightened and/or additional policies, standards and third-party certification requirements, and managing a supply chain in accordance therewith, could be costly, and our failure to comply could adversely affect our operations, customer relationships, reputation and profitability. In addition, our adoption of these standards could adversely affect our cost competitiveness, ability to provide customers with required service levels and ability to attract and retain employees in jurisdictions where these standards vary from prevailing local customs and practices. In certain circumstances, to meet the requirements or standards of our customers we may be obligated to select certain suppliers or make other sourcing choices, and we may bear responsibility for adverse outcomes even if these matters are as the result of third-party actions or outside of our control.

### **Changes to financial accounting rules or standards, or challenges to our interpretation or application of the rules by regulators, may have a material adverse effect on our reported financial results or on the way we conduct business.**

We prepare our financial statements in conformity with U.S. GAAP. These principles are subject to interpretation by the Financial Accounting Standards Board ("FASB"), the SEC and various bodies formed to interpret and create accounting policies. From time to time, we are required to adopt new or revised accounting standards issued by recognized authoritative bodies, including the FASB and the SEC. For example, new FASB guidance that impacts revenue recognition criteria was effective for the Company beginning in the first quarter of fiscal year 2019. The new standard resulted in a change to the timing of revenue recognition for a significant portion of the Company's revenue stream, whereby revenue is now being recognized "over time" as production occurs as opposed to at a "point in time" upon physical delivery. The new standard is also expected to continue to affect the Company's ability to forecast financial results in the near term.

See also "Recently Issued Accounting Pronouncements Not Yet Adopted" within Note 1, "Description of Business and Significant Accounting Policies," in Part II, Item 8, Notes to Consolidated Financial Statements for information regarding the expected impact of new standards and/or guidance on the Company's consolidated financial statements.

**There may be problems with the products we design, manufacture or service that could result in liability claims against us, reduced demand for our services and damage to our reputation.**

The products that we design, manufacture or service may be subject to liability or claims in the event that defects are discovered or alleged. We design, manufacture and service products to our customers' specifications, many of which are highly complex, and produce products for industries, such as healthcare, aerospace and defense, that have higher risk profiles. Despite our quality control and quality assurance efforts, problems may occur, or may be alleged, in the design, manufacturing or servicing of these products, including as a result of business continuity issues. Whether or not we are responsible, problems in the products we manufacture, whether real or alleged, whether caused by faulty customer specifications, the design or manufacturing processes, servicing, or a component defect, may result in delayed shipments to customers or reduced or canceled customer orders. If these problems were to occur in large quantities or too frequently, our business reputation may also be tarnished. In addition, such problems may result in liability claims against us, whether or not we are responsible. These potential claims may include damages for the recall of a product or injury to person or property.

Even if customers or third parties, such as component suppliers, are responsible for defects, they may not, or may not be able to, assume responsibility for any such costs or required payments to us. While we seek to secure contractual protection and/or to insure against many of these risks, we may not have practical recourse against certain suppliers, and contractual protections, insurance coverage or supplier warranties, as well as our other risk mitigation efforts, may be inadequate, not cost effective or unavailable, either in general or for particular types of products or issues. We occasionally incur costs defending claims, and any such disputes could adversely affect our business relationships.

**Intellectual property infringement claims against our customers or us could harm our business.**

Our services and the products offered by our customers involve the creation and use of intellectual property rights, which subject us and our customers to the risk of claims of intellectual property infringement from third parties. In addition, our customers may require that we indemnify them against the risk of intellectual property infringement. If any claims are brought against us or our customers for infringement, whether or not these have merit, we could be required to expend significant resources in defense of those claims. In the event of an infringement claim, we may be required to spend a significant amount of money to develop non-infringing alternatives or obtain licenses. We may not be successful in developing alternatives or obtaining licenses on reasonable terms or at all. Infringement by our customers could cause them to discontinue production of some of their products, potentially with little or no notice, which may reduce our net sales to them and disrupt our production.

Additionally, if third parties on whom we rely for products or services, such as component suppliers, are responsible for an infringement (including through the supply of counterfeit parts), we may or may not be able to hold them responsible and we may incur costs in defending claims or providing remedies. Such infringements may also cause our customers to abruptly discontinue selling the impacted products, which would adversely affect our net sales of those products, and could affect our customer relationships more broadly. Similarly, claims affecting our suppliers could cause those suppliers to discontinue selling materials and components upon which we rely.

**Increased competition may result in reduced demand or reduced prices for our services.**

Our industry is highly competitive. We compete against numerous providers with global operations, as well as those which operate on only a local or regional basis. In addition, current and prospective customers continually evaluate the merits of designing, manufacturing and servicing products internally and may choose to design, manufacture or service products (including products or product types that we currently design, manufacture or service for them) themselves rather than outsource such activities. Consolidations and other changes in our industry may result in a changing competitive landscape.

Our competitors may:

- respond more quickly than us to new or emerging technologies
- have greater name recognition, critical mass and geographic and market presence
- be better able to take advantage of acquisition opportunities
- adapt more quickly to changes in customer requirements
- have lower internal cost structures
- have greater direct buying power with component suppliers, distributors and raw material suppliers
- devote greater resources to the development, promotion and sale of their services and execution of their strategy, and
- be better positioned to compete on price for their services.

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Our manufacturing processes are generally not subject to significant proprietary protection, and companies with greater resources or a greater market presence may enter our market or otherwise become increasingly competitive. Increased competition could result in significant price reductions, reduced sales and margins, or loss of market share.

**We depend on our workforce, including certain key personnel, and the loss of key personnel or other personnel disruptions, including the inability to hire and retain sufficient personnel, may harm our business.**

Our success depends in large part on the continued services of our key management and technical personnel, and on our ability to attract, develop and retain qualified employees, particularly highly skilled design, process and test engineers involved in the development of new products and processes and the manufacture of products. The competition for these individuals is significant, especially in tight labor markets, and the loss of key employees could harm our business.

From time to time, there are changes and developments, such as retirements, promotions, transitions, disability, death and other terminations of service that affect our executive officers and other key employees, including those that are unexpected. Transitions or other changes in responsibilities among officers and key employees, particularly those that are unanticipated, unplanned or not executed effectively, inherently can cause disruptions to our business and operations, as well as harm our reputation, which could have an effect on our results.

We also depend on good relationships with our workforce generally. Any disruption in our relationships with our personnel, including as a result of union organizing activities, work actions, tightening labor markets or other labor issues, could substantially affect our operations and results.

In addition, when we expand operations in either existing areas or new locations, including internationally, we need to attract and retain the services of sufficient qualified personnel to conduct those operations. If we fail to retain and maintain sufficient qualified personnel, the operations at those locations, and consequently our financial results, could be adversely affected. In new or existing facilities we may be subject to local labor practices or union activities, wage pressure and changing wage requirements, increasing healthcare costs, differing employment laws and regulations in various countries, local competition for employees, restrictions on immigration, labor mobility as well as high turnover, and other issues affecting our workforce, all of which could affect operations at particular locations, which also could have adverse effects on our operational results. As noted above, our adoption of certain third-party standards could adversely affect our ability to attract and retain employees in jurisdictions where these standards vary from prevailing local customs and practices.

**Natural disasters, breaches of security and other events outside our control, and the ineffective management of such events, may harm our business.**

Some of our facilities are located in areas that may be impacted by natural disasters, including tornadoes, hurricanes, earthquakes, water shortages, tsunamis and floods. All facilities are subject to other natural or man-made disasters such as those related to weather events or global climate change, fires, acts of terrorism or war, breaches of security, theft or espionage, workplace violence and failures of utilities. If such an event was to occur and we did not have an effective business continuity plan in place, our business could be harmed due to the event itself or due to our inability to effectively manage the effects of the particular event, with the impact of the event potentially magnified in areas where we have multiple facilities. Potential harms include the loss of business continuity, the loss of business data and damage to infrastructure.

In addition, some of our facilities possess certifications necessary to work on specialized products that our other locations lack. If work is disrupted at one of these facilities, it may be impractical or we may be unable to transfer such specialized work to another facility without significant costs and delays. Thus, any disruption in operations at a facility possessing specialized certifications could adversely affect our ability to provide products and services to our customers, and thus negatively affect our relationships and financial results.

Although we have implemented policies and procedures with respect to physical security, we remain at risk of unauthorized access to our facilities and the possible unauthorized use or theft of inventory, information or other physical assets. If unauthorized persons gain physical access to our facilities, or our physical assets or information are stolen, damaged or used in an unauthorized manner (whether through outside theft or industrial espionage), we could be subject to, among other consequences, negative publicity, governmental inquiry and oversight, loss of government contracts, litigation by affected parties or other future financial obligations related to the loss, misuse or theft of our or our customers' data, inventory or physical assets, any of which could have a material adverse effect on our reputation and results of operations.

**We may fail to secure or maintain necessary additional financing or capital.**

Although we have credit facilities, we cannot be certain that our existing credit arrangements will provide all of the financing capacity that we will need in the future or that we will be able to change the credit facilities or revise covenants, if necessary, to accommodate changes or developments in our business and operations and/or increased working capital needs. In addition, if we do not comply with the covenants under our credit agreement, our ability to borrow under that facility would be adversely affected. In addition, it is possible that counterparties to our financial agreements, including our credit agreement and receivables factoring programs, may not be willing or able to meet their obligations, either due to instability in the global financial markets or otherwise, which could, among other impacts, increase the duration of our cash collection cycle.

Our future success may depend on our ability to obtain additional financing and capital to support possible future growth and future initiatives. During fiscal 2019, we successfully refinanced our revolving credit facility to, among other changes, expand the maximum commitment from \$300 million to \$350 million. We also have the potential to increase capacity under our revolving credit facility from \$350 million to \$600 million with the approval of the lenders. In addition, we also have receivables factoring programs. Many of our borrowings are at variable interest rates and therefore our interest expense is subject to increase if rates, including LIBOR, increase. The United Kingdom's Financial Conduct Authority announced that after 2021 it would no longer persuade or compel panel banks to submit the rates required to calculate LIBOR, and it is unclear whether the banks currently reporting information used to set LIBOR will stop doing so after 2021. Although the consequences of these developments cannot be predicted at this time, should LIBOR no longer be available, the rates under our variable rate indebtedness could increase and access to capital could be adversely impacted.

We may seek to raise capital by issuing additional common stock, other equity securities or debt securities, modifying our existing credit facilities or obtaining new facilities, or through a combination of these methods. We may not be able to obtain capital when we want or need it, and capital may not be available on satisfactory terms. If we issue additional equity securities or convertible securities to raise capital, it may be dilutive to shareholders' ownership interests; we may not be able to offer our securities on attractive or acceptable terms in the event of volatility or weakness in our stock price. Furthermore, any additional financing may have terms and conditions that adversely affect our business, such as restrictive financial or operating covenants, and our ability to meet any current or future financing covenants will largely depend on our financial performance, which in turn will be subject to general economic conditions and financial, business and other factors.

**We may fail to successfully complete future acquisitions, as well as strategic arrangements, and may not successfully integrate acquired operations or recognize the anticipated benefits, which could adversely affect our operating results.**

While we have primarily chosen an organic growth strategy in recent years, we may grow through acquisitions and strategic arrangements, such as our fiscal 2018 acquisition of the assets of one of the business lines of Cascade Controls, Inc. ("Cascade"), a company that provides new product introduction services. If we were to pursue future growth through acquisitions, including the acquisition of operations divested by our customers, or similar transactions, this would involve significant risks that could have a material adverse effect on us. These risks include:

Operating risks, such as:

- the inability to integrate successfully our acquired operations' businesses, systems and personnel
- the inability to realize anticipated synergies, economies of scale or other value
- the difficulties in scaling up production and coordinating management of operations at new sites
- the strain placed on our personnel, systems and resources
- the possible modification or termination of an acquired business' customer programs, including the loss of customers and the cancellation of current or anticipated programs, and
- the loss of key employees of acquired businesses.

Financial risks, such as:

- the use of cash resources, or incurrence of additional debt and related interest expense
- the dilutive effect of the issuance of additional equity securities
- the effect of potential volatility or weakness in our stock price on its use as consideration for acquisitions
- the inability to achieve expected operating margins to offset the increased fixed costs associated with acquisitions, or inability to increase margins of acquired businesses to our desired levels
- the incurrence of large write-offs or write-downs
- the impairment of intangible assets, and
- the unforeseen liabilities of the acquired businesses.

**ITEM 1B. UNRESOLVED SEC STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

Our facilities comprise an integrated network of engineering and manufacturing centers with our corporate headquarters located in Neenah, Wisconsin. We own or lease facilities with approximately 4.0 million square feet of capacity. This includes approximately 1.6 million square feet in AMER, approximately 2.0 million square feet in APAC and approximately 0.4 million square feet in EMEA. Our active facilities as of September 28, 2019, are described in the following table:

| Location                    | Type                      | Size (sq. ft.) | Owned/Leased |
|-----------------------------|---------------------------|----------------|--------------|
| <b>AMER</b>                 |                           |                |              |
| Neenah, Wisconsin           | Manufacturing             | 418,000        | Owned        |
| Guadalajara, Mexico         | Manufacturing/Engineering | 265,000        | Leased       |
| Nampa, Idaho                | Manufacturing             | 216,000        | Owned        |
| Appleton, Wisconsin         | Manufacturing             | 205,000        | Owned        |
| Buffalo Grove, Illinois (1) | Manufacturing             | 189,000        | Leased       |
| Neenah, Wisconsin           | Global Headquarters       | 104,000        | Owned        |
| Neenah, Wisconsin           | Engineering               | 90,000         | Leased       |
| Raleigh, North Carolina     | Engineering               | 41,000         | Leased       |
| Portland, Oregon            | Manufacturing             | 29,000         | Leased       |
| Louisville, Colorado        | Engineering               | 26,000         | Leased       |
| <b>APAC</b>                 |                           |                |              |
| Penang, Malaysia (1)        | Manufacturing/Engineering | 1,480,000      | Owned        |
| Hangzhou, China (1)         | Manufacturing             | 234,000        | Leased       |
| Xiamen, China               | Manufacturing             | 133,000        | Owned        |
| Xiamen, China (1)           | Manufacturing             | 122,000        | Leased       |
| Kaki Bukit, Singapore       | Manufacturing             | 12,000         | Leased       |
| <b>EMEA</b>                 |                           |                |              |
| Oradea, Romania             | Manufacturing/Engineering | 296,000        | Owned        |
| Livingston, Scotland        | Manufacturing/Engineering | 62,000         | Leased       |
| Kelso, Scotland             | Manufacturing             | 57,000         | Owned        |
| Darmstadt, Germany          | Engineering               | 21,000         | Leased       |

(1) The facilities in Buffalo Grove, Illinois, Penang, Malaysia, Xiamen, China and Hangzhou, China include more than one building.

In June 2018, construction began on a second leased manufacturing facility in Guadalajara, Mexico. Construction was completed in the first quarter of fiscal 2020.

**ITEM 3. LEGAL PROCEEDINGS**

The Company is party to certain lawsuits and legal proceedings in the ordinary course of business. Management does not believe that these proceedings, individually or in the aggregate, will have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**Executive Officers**

See "Information about our Executive Officers" in Part III, Item 10, "Directors, Executive Officers and Corporate Governance," of this Form 10-K.

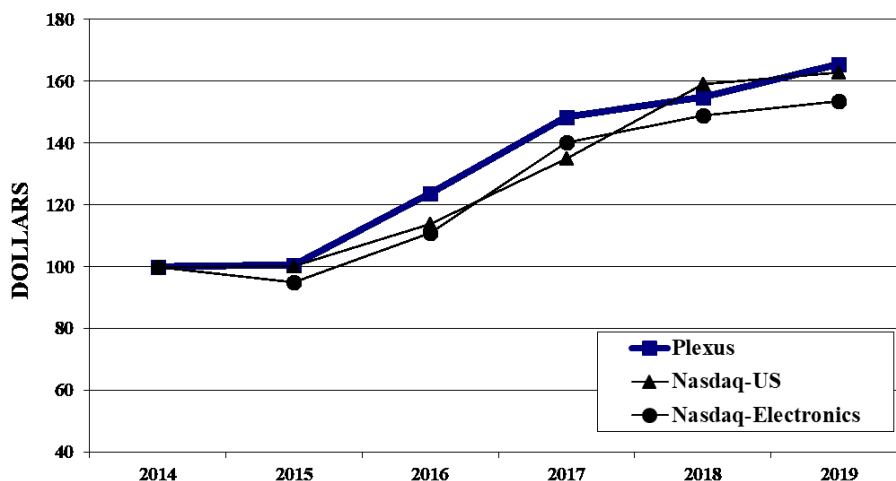
**PART II**

**ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

**Performance Graph**

The Company’s common stock trades on the Nasdaq Stock Market in the Nasdaq Global Select Market tier (symbol: PLXS).

The following graph compares the cumulative total return on Plexus common stock with the Nasdaq Stock Market Index for U.S. Companies and the Nasdaq Stock Market Index for Electronic Components Companies, both of which include Plexus. The values on the graph show the relative performance of an investment of \$100 made on September 26, 2014, in Plexus common stock and in each of the indices as of the last business day of the respective fiscal year.



**Comparison of Cumulative Total Return**

|                    | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  |
|--------------------|-------|-------|-------|-------|-------|-------|
| Plexus             | \$100 | \$101 | \$124 | \$148 | \$155 | \$166 |
| Nasdaq-US          | 100   | 100   | 114   | 135   | 159   | 163   |
| Nasdaq-Electronics | 100   | 95    | 111   | 140   | 149   | 154   |

**Shareholders of Record**

As of November 11, 2019, we had 406 shareholders of record.

**Dividends**

We have not paid any cash dividends in the past. We currently anticipate that in the foreseeable future the majority of earnings will be retained to finance the development of our business and our authorized share repurchases. However, the Company evaluates from time to time potential uses of excess cash, which in the future may include additional share repurchases, a special dividend or recurring dividends. See also Part II, Item 7, "Management’s Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources," for a discussion of the Company’s intentions regarding dividends and loan covenants that could restrict dividend payments.

**Issuer Purchases of Equity Securities**

The following table provides the specified information about the repurchases of shares by the Company during the three months ended September 28, 2019:

| Period                                | Total number of shares purchased | Average price paid per share | Total number of shares purchased as part of publicly announced plans or programs | Maximum approximate dollar value of shares that may yet be purchased under the plans or programs (1) |
|---------------------------------------|----------------------------------|------------------------------|--|--|
| June 30, 2019 to July 27, 2019        | 213,829                          | \$ 58.57                     | 213,829  | \$ 15,603,033  |
| July 28, 2019 to August 24, 2019      | 260,650                          | 57.96                        | 260,650  | \$ 496,150   |
| August 25, 2019 to September 28, 2019 | 63,420                           | 59.53                        | 63,420   | \$ 46,721,047  |
|                                       | <u>537,899</u>                   | <u>\$ 58.38</u>              | <u>537,899</u>   |  |

(1) On February 14, 2018, the Board of Directors approved an additional stock repurchase program under which the Company was authorized to repurchase up to \$200.0 million of its common stock (the "2018 Program"). The 2018 Program commenced upon completion of the Company's previous stock repurchase program. During the three months ended September 28, 2019, the 2018 Program was completed. On August 20, 2019, the Board of Directors approved a new stock repurchase plan under which the Company is authorized to repurchase up to \$50.0 million of its common stock (the "2019 Program"). The 2019 Program commenced upon completion of the 2018 Program.



**ITEM 6. SELECTED FINANCIAL DATA**

**Financial Highlights** (dollars in thousands, except per share amounts)

|   | Fiscal Years Ended    |                       |                       |                    |                                   |
|---|-----------------------|-----------------------|-----------------------|--------------------|-----------------------------------|
|   | September 28,<br>2019 | September 29,<br>2018 | September 30,<br>2017 | October 1,<br>2016 | October 3,<br>2015 <sup>(6)</sup> |
| <b>Income Statement Data</b>                            |                       |                       |                       |                    |                                   |
| Net sales   | \$ 3,164,434          | \$ 2,873,508          | \$ 2,528,052          | \$ 2,556,004       | \$ 2,654,290                      |
| Gross profit  | 291,838               | 257,600               | 255,855               | 227,359            | 239,550                           |
| Gross margin percentage                                 | 9.2%                  | 9.0%                  | 10.1%                 | 8.9%               | 9.0%                              |
| Operating income <sup>(2) (3) (4)</sup>                 | 142,055               | 118,283               | 129,908               | 99,439             | 115,436                           |
| Operating margin percentage <sup>(2) (3) (4)</sup>      | 4.5%                  | 4.1%                  | 5.1%                  | 3.9%               | 4.3%                              |
| Net income <sup>(1) (2) (3) (4)</sup>                   | 108,616               | 13,040                | 112,062               | 76,427             | 94,332                            |
| Earnings per share (diluted) <sup>(1) (2) (3) (4)</sup> | \$ 3.50               | \$ 0.38               | \$ 3.24               | \$ 2.24            | \$ 2.74                           |
| <b>Cash Flow Statement Data</b>                         |                       |                       |                       |                    |                                   |
| Cash flows provided by operations                       | \$ 115,300            | \$ 66,831             | \$ 171,734            | \$ 127,738         | \$ 76,572                         |
| Capital equipment additions                             | 90,600                | 62,780                | 38,538                | 31,123             | 35,076                            |
| <b>Balance Sheet Data</b>                               |                       |                       |                       |                    |                                   |
| Total assets  | \$ 2,000,883          | \$ 1,932,642          | \$ 1,976,182          | \$ 1,765,819       | \$ 1,691,760                      |
| Total debt obligations                                  | 287,980               | 188,617               | 313,107               | 262,509            | 261,806                           |
| Shareholders' equity                                    | 865,576               | 921,143               | 1,025,939             | 916,797            | 842,272                           |
| Return on invested capital <sup>(5)</sup>               | 13.1%                 | 16.1%                 | 16.2%                 | 13.8%              | 14.0%                             |
| Inventory turnover ratio                                | 3.8x                  | 3.6x                  | 3.7x                  | 4.2x               | 4.3x                              |

- (1) During fiscal 2019, the Company recorded \$7.0 million of special tax expense in accordance with regulations under U.S. Tax Reform, and reasserted that certain historical undistributed earnings of two foreign subsidiaries will be permanently reinvested, resulting in a \$10.5 million benefit.
- (2) During fiscal 2019, the Company recorded \$1.7 million, \$1.5 million net of taxes, in restructuring costs, which are included in operating income.
- (3) During fiscal 2018, the Company recorded \$85.9 million of non-recurring income tax expense due to the enactment of U.S. Tax Reform and paid a \$13.5 million one-time non-executive employee bonus.
- (4) During fiscal 2016, the Company recorded \$7.0 million in restructuring costs and \$5.2 million in selling and administrative expenses, which are included in operating income. The \$7.0 million was largely related to the Company's closure of its manufacturing facility in Fremont, California, and the partial closure of its Livingston, Scotland facility. The \$5.2 million was related to accelerated share-based compensation expense recorded pursuant to the retirement agreement with the Company's former Chief Executive Officer. During fiscal 2015 the Company recorded \$1.7 million of restructuring costs, largely related to the Company's consolidation of its manufacturing facilities in Wisconsin, as well as its relocation of manufacturing operations from Juarez, Mexico to Guadalajara, Mexico.
- (5) The Company defines return on invested capital ("ROIC"), a non-GAAP financial measure, as tax-effected operating income divided by average invested capital over a rolling five-quarter period. Invested capital is defined as equity plus debt, less cash and cash equivalents, as discussed in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations - Return on Invested Capital ("ROIC") and Economic Return." For a reconciliation of ROIC and Economic Return to our financial statements that were prepared in accordance with GAAP, see Exhibit 99.1 to this annual report on Form 10-K.
- (6) Fiscal 2015 included 53 weeks. All other periods presented included 52 weeks.

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****OVERVIEW**

Plexus Corp. and its subsidiaries (together "Plexus," the "Company," or "we") participate in the Electronic Manufacturing Services ("EMS") industry. Since 1979, Plexus has been partnering with companies to create the products that build a better world. We are a team of over 19,000 employees, providing global support for all facets of the product realization process – Design and Development, Supply Chain Solutions, New Product Introduction, Manufacturing, and Aftermarket Services – to companies in the Healthcare/Life Sciences, Industrial/Commercial, Aerospace/Defense and Communications market sectors. Plexus is an industry leader that specializes in serving customers with highly complex products used in demanding regulatory environments in the Americas ("AMER"), Asia-Pacific ("APAC") and Europe, Middle East, and Africa ("EMEA") regions. Plexus delivers customer service excellence to leading global companies by providing innovative, comprehensive solutions throughout the product's lifecycle.

A discussion regarding our financial condition and results of operations for fiscal 2019 compared to fiscal 2018 is presented below. A discussion regarding our financial condition and results of operations for fiscal 2018 compared to fiscal 2017 can be found under Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," in our Annual Report on the Form 10-K for the fiscal year ended September 29, 2018, which was filed with the SEC on November 16, 2018, and is available on the SEC's website at [www.sec.gov](http://www.sec.gov) as well as our Investor Relations website at [www.plexus.com](http://www.plexus.com).

The following information should be read in conjunction with our consolidated financial statements included herein and "Risk Factors" included in Part I, Item 1A herein.

**RESULTS OF OPERATIONS**

**Consolidated Performance Summary.** The following table presents selected consolidated financial data for the indicated fiscal years (dollars in millions, except per share data):

|                             | 2019       | 2018       |
|-----------------------------|------------|------------|
| Net sales                   | \$ 3,164.4 | \$ 2,873.5 |
| Cost of sales               | 2,872.6    | 2,615.9    |
| Gross profit                | 291.8      | 257.6      |
| Gross margin                | 9.2%       | 9.0%       |
| Operating income            | 142.1      | 118.3      |
| Operating margin            | 4.5%       | 4.1%       |
| Other expense               | 16.1       | 10.7       |
| Income tax expense          | 17.3       | 94.6       |
| Net income                  | 108.6      | 13.0       |
| Diluted earnings per share  | \$ 3.50    | \$ 0.38    |
| Return on invested capital* | 13.1%      | 16.1%      |
| Economic return*            | 4.1%       | 6.6%       |

\*Non-GAAP metric; refer to "Return on Invested Capital ("ROIC") and Economic Return" below for more information and Exhibit 99.1 for a reconciliation.

**Net sales.** Fiscal 2019 net sales increased \$290.9 million, or 10.1%, as compared to fiscal 2018.

Net sales are analyzed by management by geographic segment, which reflects the Company's reportable segments, and by market sector. Management measures operational performance and allocates resources on a geographic segment basis. The Company's global business development strategy is based on our targeted market sectors.

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A discussion of net sales by reportable segment is presented below for the indicated fiscal years (in millions):

|                                    | 2019              | 2018              |
|------------------------------------|-------------------|-------------------|
| Net sales:                         |                   |                   |
| AMER                               | \$ 1,429.3        | \$ 1,218.9        |
| APAC                               | 1,557.2           | 1,498.0           |
| EMEA                               | 309.9             | 281.5             |
| Elimination of inter-segment sales | (132.0)           | (124.9)           |
| Total net sales                    | <u>\$ 3,164.4</u> | <u>\$ 2,873.5</u> |

**AMER.** Net sales for fiscal 2019 in the AMER segment increased \$210.4 million, or 17.3%, as compared to fiscal 2018. The increase in net sales was driven by a \$181.7 million increase in production ramps of new products for existing customers, a \$13.5 million increase in production ramps for new customers and overall net increased customer end-market demand. The increase was partially offset by a \$16.4 million decrease for end-of-life products and a \$6.0 million reduction due to disengagements with customers.

**APAC.** Net sales for fiscal 2019 in the APAC segment increased \$59.2 million, or 4.0%, as compared to fiscal 2018. The increase in net sales was driven by an \$87.3 million increase in production ramps of new products for existing customers and a \$58.1 million increase in production ramps for new customers. The increase was partially offset by a \$28.4 million reduction due to a disengagement with a customer, a \$7.3 million decrease for end-of-life products and overall net decreased customer end-market demand.

**EMEA.** Net sales for fiscal 2019 in the EMEA segment increased \$28.4 million, or 10.1%, as compared to fiscal 2018. The increase in net sales was the result of a \$20.2 million increase in production ramps of new products for existing customers, a \$4.2 million increase in production ramps for new customers and overall net increased customer end-market demand. The increase was partially offset by a \$6.2 million reduction due to a disengagement with a customer.

Our net sales by market sector for the indicated fiscal years were as follows (in millions):

| Market Sector            | 2019              | 2018              |
|--------------------------|-------------------|-------------------|
| Healthcare/Life Sciences | \$ 1,220.0        | \$ 1,039.9        |
| Industrial/Commercial    | 981.2             | 917.7             |
| Aerospace/Defense        | 588.6             | 445.1             |
| Communications           | 374.6             | 470.8             |
| Total net sales          | <u>\$ 3,164.4</u> | <u>\$ 2,873.5</u> |

**Healthcare/Life Sciences.** Net sales for fiscal 2019 in the Healthcare/Life Sciences sector increased \$180.1 million, or 17.3%, as compared to fiscal 2018. The increase was driven by overall net increased customer end-market demand, a \$32.7 million increase in production ramps of new products for existing customers and a \$26.9 million increase in production ramps for new customers.

**Industrial/Commercial.** Net sales for fiscal 2019 in the Industrial/Commercial sector increased \$63.5 million, or 6.9%, as compared to fiscal 2018. The increase was driven by a \$64.8 million increase in production ramps of new products for existing customers and a \$33.2 million increase in production ramps for new customers. The increase was partially offset by a \$7.3 million decrease due to end-of-life products, a \$4.2 million decrease due to a disengagement with a customer and overall net decreased customer end-market demand.

**Aerospace/Defense.** Net sales for fiscal 2019 in the Aerospace/Defense sector increased \$143.5 million, or 32.2%, as compared to fiscal 2018. The increase was driven by a \$120.2 million increase in production ramps of new products for existing customers, a \$9.9 million increase in production ramps for new customers and overall net increased customer end-market demand.

**Communications.** Net sales for fiscal 2019 in the Communications sector decreased \$96.2 million, or 20.4%, as compared to fiscal 2018. The decrease was driven by a \$37.3 million reduction due to disengagements with customers, a \$15.3 million decrease due to end-of-life products and overall net decreased customer end-market demand. The decrease was partially offset by an \$18.1 million increase in production ramps of new products for existing customers and a \$4.5 million increase in production ramps for new customers.

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As a percentage of consolidated net sales, net sales attributable to customers representing 10% or more of consolidated net sales as well as the percentage of net sales attributable to our ten largest customers for the indicated fiscal years were as follows:

|                                 | 2019  | 2018  |
|---------------------------------|-------|-------|
| General Electric Company ("GE") | 12.4% | 12.3% |
| Top 10 customers                | 54.6% | 57.2% |

**Cost of sales.** Cost of sales for fiscal 2019 increased \$256.7 million, or 9.8%, as compared to fiscal 2018. Cost of sales is comprised primarily of material and component costs, labor costs and overhead. In fiscal 2019 and 2018, approximately 89% of the total cost of sales was variable in nature and fluctuated with sales volumes. Of these amounts, approximately 86% and 88% of these costs in fiscal 2019 and 2018, respectively, were related to material and component costs.

As compared to fiscal 2018, the increase in cost of sales in fiscal 2019 was primarily driven by the increase in net sales and increased fixed costs to support program ramps. Partially offsetting the increase was a positive shift in customer mix and the \$13.5 million one-time employee bonus (the "one-time employee bonus") that was paid during fiscal 2018, of which \$12.6 million impacted cost of sales in that period.

**Gross profit.** Gross profit for fiscal 2019 increased \$34.2 million, or 13.3%, as compared to fiscal 2018. Gross margin of 9.2% increased by 20 basis points as compared to fiscal 2018. The primary driver of the increases in gross profit and gross margin as compared to fiscal 2018 was the increase in net sales, a positive shift in customer mix and the one-time employee bonus that was paid during fiscal 2018.

**Operating income.** Operating income for fiscal 2019 increased \$23.8 million, or 20.1%, as compared to fiscal 2018 as a result of the increase in gross profit as well as the non-recurrence of the one-time employee bonus that was paid during fiscal 2018, as noted above. This was partially offset by an \$8.8 million increase in selling and administrative expenses, driven by a \$4.9 million increase in compensation expense, and \$1.7 million of restructuring costs. Operating margin of 4.5% increased 40 basis points compared to fiscal 2018 primarily due to the increase in gross margin as a result of the factors discussed above.

A discussion of operating income by reportable segment is presented below (in millions):

|                           | 2019     | 2018     |
|---------------------------|----------|----------|
| Operating income (loss):  |          |          |
| AMER                      | \$ 57.8  | \$ 38.6  |
| APAC                      | 208.2    | 213.9    |
| EMEA                      | 4.5      | 1.5      |
| Corporate and other costs | (128.4)  | (135.7)  |
| Total operating income    | \$ 142.1 | \$ 118.3 |

**AMER.** Operating income increased \$19.2 million in fiscal 2019 as compared to fiscal 2018, primarily as a result of the increase in net sales and a positive shift in customer mix, partially offset by increased fixed costs to support new program ramps.

**APAC.** Operating income decreased \$5.7 million in fiscal 2019 as compared to fiscal 2018, primarily as a result of a negative shift in customer mix and increased fixed costs to support new program ramps, partially offset by the increase in net sales.

**EMEA.** Operating income increased \$3.0 million in fiscal 2019 as compared to fiscal 2018 primarily as a result of the increase in net sales and a positive shift in customer mix, partially offset by increased fixed costs to support new program ramps.

**Other expense.** Other expense for fiscal 2019 increased \$5.4 million as compared to fiscal 2018. The increase in other expense for fiscal 2019 was primarily due to a \$2.7 million decrease in interest income as a result of lower cash balances and a \$1.5 million increase in factoring fees related to the Company's accounts receivable sale programs.

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**Income taxes.** Income tax expense and effective annual income tax rates for fiscal 2019 and 2018, as well as information as to the effects of the U.S. Tax Reform in fiscal 2018, were as follows (dollars in millions):

|  | 2019    | 2018    |
|--|---------|---------|
| Income tax expense, as reported (GAAP)         | \$ 17.3 | \$ 94.6 |
| Accumulated foreign earnings assertion         | 10.5    | —       |
| U.S. Tax Reform                                | (7.0)   | (85.9)  |
| Impact of other special tax items              | 0.2     | (1.1)   |
| Impact of valuation allowance release          | —       | 3.6     |
| Impact of one-time employee bonus              | —       | 0.3     |
| Income tax expense, as adjusted (non-GAAP) (1) | \$ 21.0 | \$ 11.5 |

|  | 2019   | 2018   |
|--|--------|--------|
| Effective tax rate, as reported (GAAP)         | 13.8 % | 87.9 % |
| Accumulated foreign earnings assertion         | 8.4    | —      |
| U.S. Tax Reform                                | (5.6)  | (79.8) |
| Impact of other special tax items              | (0.1)  | (1.0)  |
| Impact of valuation allowance release          | —      | 3.4    |
| Impact of one-time employee bonus              | —      | (1.0)  |
| Effective tax rate, as adjusted (non-GAAP) (1) | 16.5 % | 9.5 %  |

(1) We believe the non-GAAP presentation of income tax expense and the effective annual tax rate excluding special tax items, the one-time employee bonus and restructuring charges provides additional insight over the change from the comparative reporting periods by isolating the impact of these significant, special items. In addition, the Company believes that its income tax expense, as adjusted, and effective tax rate, as adjusted, enhance the ability of investors to analyze the Company's operating performance and supplement, but do not replace, its income tax expense and effective tax rate calculated in accordance with U.S. GAAP.

Income tax expense for fiscal 2019 was \$17.3 million compared to \$94.6 million for fiscal 2018. The decrease is primarily due to the \$85.9 million impact of Tax Reform that was recorded in fiscal 2018, which was partially offset by an increase in tax expense due to the global intangible low-taxed income provisions ("GILTI") of Tax Reform in fiscal 2019. Income tax expense also decreased by \$10.5 million in fiscal 2019 as the Company reasserted that certain historical undistributed earnings of two foreign subsidiaries will be permanently reinvested based on the expected working capital requirements of these two foreign subsidiaries.

The \$94.6 million of income tax expense recorded during fiscal 2018 included \$85.9 million related to the enactment of Tax Reform. Included in the fiscal 2018 income tax expense was a \$3.6 million benefit for the valuation allowance released against the net deferred tax assets in the U.S. as the Company is subject to GILTI.

Our annual effective tax rate varies from the U.S. statutory rate of 21.0% primarily due to the geographic distribution of worldwide earnings as well as a tax holiday granted to a subsidiary located in the APAC segment where we derive a significant portion of our earnings. Our effective tax rate also may be impacted by disputes with taxing authorities, tax planning activities, adjustments to uncertain tax positions and changes in valuation allowances.

The Company has been granted a tax holiday for a foreign subsidiary operating in the APAC segment. This tax holiday will expire on December 31, 2024, and is subject to certain conditions with which we expect to continue to comply. In fiscal 2019 and 2018, the holiday resulted in tax reductions of approximately \$23.9 million net of the impact of the GILTI provisions of Tax Reform (\$0.79 per basic share, \$0.77 per diluted share) and \$39.1 million (\$1.19 per basic share, \$1.15 per diluted share), respectively.

See also Note 6, "Income Taxes," in Notes to Consolidated Financial Statements for additional information regarding our tax rate.

The annual effective tax rate for fiscal 2020 is expected to be approximately 13.0% to 15.0%.

**Net Income.** Net income for fiscal 2019 increased \$95.6 million, or 735.4%, from fiscal 2018 to \$108.6 million. Net income increased primarily as a result of the \$77.3 million decrease in income tax expense, which as noted above was substantially due to the impact of Tax Reform in fiscal 2018, as well as the increase in operating income previously discussed.

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**Diluted earnings per share.** Diluted earnings per share for fiscal 2019 and 2018, as well as information as to the effects of special events that occurred in the indicated periods, as previously discussed and detailed below, were as follows (dollars in millions):

|  | 2019    | 2018    |
|--|---------|---------|
| Diluted earnings per share, as reported (GAAP)         | \$ 3.50 | \$ 0.38 |
| Restructuring costs, net of tax                        | 0.05    | —       |
| U.S. Tax Reform  | 0.23    | 2.46    |
| Accumulated foreign earnings assertion                 | (0.35)  |         |
| One-time employee bonus, net of tax                    | —       | 0.39    |
| Diluted earnings per share, as adjusted (non-GAAP) (1) | \$ 3.43 | \$ 3.23 |

(1) We believe the non-GAAP presentation of diluted earnings per share excluding special tax items, consisting of those related to Tax Reform and a change in our permanent reinvestment assertions related to undistributed earnings of two foreign subsidiaries, as well as restructuring costs and the one-time employee bonus, provide additional insight over the change from the comparative reporting periods by eliminating the effects of special or unusual items. In addition, the Company believes that its diluted earnings per share, as adjusted, enhances the ability of investors to analyze the Company's operating performance and supplements, but does not replace, its diluted earnings per share calculated in accordance with U.S. GAAP.

Diluted earnings per share increased to \$3.50 in fiscal 2019 from \$0.38 in fiscal 2018 primarily as a result of increased net income due to the factors discussed above and a reduction in diluted shares outstanding due to repurchase activity under the Company's stock repurchase plans.

**Return on Invested Capital ("ROIC") and Economic Return.** We use a financial model that is aligned with our business strategy and includes a ROIC goal of 500 basis points over our weighted average cost of capital ("WACC"), which we refer to as "Economic Return." Our primary focus is on our Economic Return goal of 5.0%, which is designed to create shareholder value and generate sufficient cash to self-fund our targeted organic revenue growth rate of 12.0%. ROIC and Economic Return are non-GAAP financial measures.

Non-GAAP financial measures, including ROIC and Economic Return, are used for internal management goals and decision making because such measures provide management and investors additional insight into financial performance. In particular, we provide ROIC and Economic Return because we believe they offer insight into the metrics that are driving management decisions because we view ROIC and Economic Return as important measures in evaluating the efficiency and effectiveness of our long-term capital requirements. We also use a derivative measure of ROIC as a performance criteria in determining certain elements of compensation, and certain compensation incentives are based on Economic Return performance.

We define ROIC as tax-effected operating income before restructuring and other special items divided by average invested capital over a rolling five-quarter period for the fiscal year. Invested capital is defined as equity plus debt, less cash and cash equivalents. Other companies may not define or calculate ROIC in the same way. ROIC and other non-GAAP financial measures should be considered in addition to, not as a substitute for, measures of our financial performance prepared in accordance with U.S. generally accepted accounting principles ("GAAP").

We review our internal calculation of WACC annually. Our WACC was 9.0% for fiscal year 2019 and 9.5% for fiscal year 2018. By exercising discipline to generate ROIC in excess of our WACC, our goal is to create value for our shareholders. Fiscal 2019 ROIC of 13.1% reflects an Economic Return of 4.1%, based on our weighted average cost of capital of 9.0%, and fiscal 2018 ROIC of 16.1% reflects an Economic Return of 6.6%, based on our weighted average cost of capital of 9.5% for that fiscal year.

For a reconciliation of ROIC, Economic Return and adjusted operating income (tax effected) to our financial statements that were prepared using GAAP, see Exhibit 99.1 to this annual report on Form 10-K, which exhibit is incorporated herein by reference.

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Refer to the table below, which includes the calculation of ROIC and Economic Return (dollars in millions) for the indicated periods:

|  | 2019     | 2018     |
|--|----------|----------|
| Adjusted operating income (tax effected) | \$ 120.7 | \$ 118.6 |
| Average invested capital                 | 923.1    | \$ 735.6 |
| After-tax ROIC                           | 13.1%    | 16.1%    |
| WACC                                     | 9.0%     | 9.5%     |
| Economic Return                          | 4.1%     | 6.6%     |

## LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents and restricted cash were \$226.3 million as of September 28, 2019, as compared to \$297.7 million as of September 29, 2018.

As of September 28, 2019, 96.8% of our cash balance was held outside of the U.S. by our foreign subsidiaries. With the enactment of Tax Reform, we believe that our offshore cash can be accessed in a more tax efficient manner than before Tax Reform. Currently, we believe that our cash balance, together with cash available under our Credit Facility, will be sufficient to meet our liquidity needs and potential share repurchases, if any, for the next twelve months and for the foreseeable future.

Our future cash flows from operating activities will be reduced by \$65.1 million due to cash payments for U.S. federal taxes on the deemed repatriation of undistributed foreign earnings that are payable over an eight year period that began in fiscal 2019 with the first payment. The table below provides the expected timing of these future cash outflows, in accordance with the following installment schedule for the remaining seven years (in millions):

|       |         |
|-------|---------|
| 2020  | \$ 5.5  |
| 2021  | 5.7     |
| 2022  | 5.7     |
| 2023  | 5.7     |
| 2024  | 10.6    |
| 2025  | 14.2    |
| 2026  | 17.7    |
| Total | \$ 65.1 |

**Cash Flows.** The following table provides a summary of cash flows for fiscal 2019 and 2018, excluding the effect of exchange rates on cash and cash equivalents and restricted cash (in millions):

|                                       | 2019      | 2018       |
|---------------------------------------|-----------|------------|
| Cash provided by operating activities | \$ 115.3  | \$ 66.8    |
| Cash used in investing activities     | \$ (89.4) | \$ (74.6)  |
| Cash used in financing activities     | \$ (97.2) | \$ (265.5) |

**Operating Activities.** Cash flows provided by operating activities were \$115.3 million for fiscal 2019, as compared to \$66.8 million for fiscal 2018. The increase was primarily due to cash flow improvements (reductions) of:

- \$159.4 million in inventory cash flows driven by inventory management efforts.
- \$66.4 million in customer deposit cash flows driven by significant deposits received from three customers.
- \$(150.1) million in accounts payables cash flows driven by reduced purchasing in an effort to manage inventory.
- \$(66.0) million in accounts receivable cash flows, which resulted primarily from the increase in net sales.
- \$14.1 million in other current and noncurrent liabilities cash flows driven by an increase in advance payments from customers.

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The following table provides a summary of cash cycle days for the periods indicated (in days):

|                             | Three Months Ended    |                       |
|-----------------------------|-----------------------|-----------------------|
|                             | September 28,<br>2019 | September 29,<br>2018 |
| Days in accounts receivable | 55                    | 47                    |
| Days in contract assets     | 10                    | —                     |
| Days in inventory           | 87                    | 104                   |
| Days in accounts payable    | (55)                  | (66)                  |
| Days in cash deposits       | (17)                  | (12)                  |
| Annualized cash cycle       | 80                    | 73                    |

We calculate days in accounts receivable and contract assets as each balance sheet item for the respective quarter divided by annualized sales for the respective quarter by day. We calculate days in inventory, accounts payable, and cash deposits as each balance sheet line item for the respective quarter divided by annualized cost of sales for the respective quarter by day. We calculate annualized cash cycle as the sum of days in accounts receivable, days in contract assets and days in inventory, less days in accounts payable and days in cash deposits. On September 30, 2018, the Company adopted Accounting Standards Update No. 2014-09 (“ASU 2014-09”), Revenue Recognition (Topic 606). For the three months ended September 28, 2019, cash cycle days include contract assets and an associated reduction in inventory. As the guidance was adopted using a modified retrospective approach, no impact to prior periods was required to be recognized.

As of September 28, 2019, annualized cash cycle days increased seven days compared to September 29, 2018 due to the following factors:

Days in accounts receivable for the three months ended September 28, 2019 increased eight days compared to the three months ended September 29, 2018. The increase is primarily attributable to the timing of customer shipments and payments and an unfavorable change in the payment terms mix, partially offset by an increase in accounts receivable sold under factoring programs.

Days in contract assets for the three months ended September 28, 2019 increased 10 days compared to the three months ended September 29, 2018. The increase is due to the impact of the adoption of Topic 606.

Days in inventory for the three months ended September 28, 2019 decreased 17 days compared to the three months ended September 29, 2018. The decrease is primarily attributable to inventory that was recognized with over time revenue as part of our adoption of Topic 606 as well as inventory management efforts.

Days in accounts payable for the three months ended September 28, 2019 decreased 11 days compared to the three months ended September 29, 2018. The decrease is primarily attributable to reduced purchasing activity in connection with our inventory management efforts.

Days in cash deposits for the three months ended September 28, 2019 increased five days compared to the three months ended September 29, 2018. The increase was primarily attributable to significant deposits received from two customers to cover higher inventory balances.

**Free Cash Flow.** We define free cash flow (“FCF”), a non-GAAP financial measure, as cash flow provided by operations less capital expenditures. FCF was \$24.7 million for fiscal 2019 compared to \$4.0 million for fiscal 2018, an increase of \$20.7 million.

Non-GAAP financial measures, including FCF, are used for internal management assessments because such measures provide additional insight to investors into ongoing financial performance. In particular, we provide FCF because we believe it offers insight into the metrics that are driving management decisions. We view FCF as an important financial metric as it demonstrates our ability to generate cash and can allow us to pursue opportunities that enhance shareholder value. FCF is a non-GAAP financial measure that should be considered in addition to, not as a substitute for, measures of our financial performance prepared in accordance with GAAP.



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A reconciliation of FCF to our financial statements that were prepared using GAAP follows (in millions):

|   | 2019     | 2018    |
|---|----------|---------|
| Cash flows provided by operating activities | \$ 115.3 | \$ 66.8 |
| Payments for property, plant and equipment  | (90.6)   | (62.8)  |
| Free cash flow                              | \$ 24.7  | \$ 4.0  |

**Investing Activities.** Cash flows used in investing activities were \$89.4 million for fiscal 2019 compared to \$74.6 million for fiscal 2018. The increase in cash used in investing activities was due to a \$27.8 million increase in capital expenditures, primarily to fund both the purchase of equipment and building improvements for our new manufacturing facility in Penang, Malaysia, and the construction of a second manufacturing facility in Guadalajara, Mexico. This change was partially offset by \$12.4 million in cash flows used in investing activities for the acquisition of the assets of one of the business lines of Cascade Controls, Inc. in fiscal 2018. See Note 16, "Acquisition," in Notes to Consolidated Financial Statements for further information.

We utilized available cash and operating cash flows as the sources for funding our operating requirements during fiscal 2019. We currently estimate capital expenditures for fiscal 2020 will be approximately \$60.0 million to \$75.0 million.

**Financing Activities.** Cash flows used in financing activities were \$97.2 million for fiscal 2019 compared to cash flows used in financing activities of \$265.5 million for fiscal 2018. The decrease was primarily attributable to a \$203.0 million increase in borrowings on our revolving credit facility and a \$25.0 million reduction in the balance of outstanding senior notes as a result of refinancing the notes, as discussed further below. This change was partially offset by a \$45.1 million increase in cash used to repurchase our common stock and an \$11.1 million decrease in proceeds from the exercise of stock options.

On August 20, 2019, the Board of Directors approved a new stock repurchase plan under which the Company was authorized to repurchase \$50.0 million of its common stock (the "2019 Program"). The 2019 Program commenced upon completion of the 2018 Program, as defined below. During fiscal 2019, the Company repurchased 54,965 shares under this program for \$3.3 million at an average price of \$59.66. As of September 28, 2019, \$46.7 million of authority remained under the 2019 Program.

On February 14, 2018, the Board of Directors approved a stock repurchase plan under which the Company is authorized to repurchase \$200.0 million of its common stock (the "2018 Program"). The 2018 Program commenced upon completion of the 2016 Program, as defined below. During fiscal 2019 and 2018, the Company completed the 2018 Program by repurchasing 3,129,059 and 343,642 shares under this program for \$178.8 million and \$21.2 million, at an average price of \$57.15 and \$61.61 per share, respectively.

On June 6, 2016, the Board of Directors authorized a multi-year stock repurchase program under which the Company was authorized to repurchase up to \$150.0 million of its common stock beginning in fiscal 2017 (the "2016 Program"). During fiscal 2018, the Company completed the 2016 Program by repurchasing 1,914,596 shares for \$115.9 million, at an average price of \$60.52 per share.

All shares repurchased under the aforementioned programs were recorded as treasury stock.

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 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 September 28, 2019, the Company was in compliance with the covenants under the 2018 NPA.

In connection with the issuance of the 2018 Notes, on June 15, 2018, the Company repaid, on maturity \$175.0 million in principal amount of its previous 5.20% Senior Notes.

On May 15, 2019, the Company refinanced its then-existing senior unsecured revolving credit facility (the "Prior Credit Facility") by entering into a new five-year senior unsecured revolving credit facility (collectively with the Prior Credit Facility, referred to as the "Credit Facility"), which expanded the maximum commitment from \$300.0 million to \$350.0 million and extended the maturity from July 5, 2021 to May 15, 2024. The maximum commitment under the Credit Facility may be further increased to \$600.0 million, generally by mutual agreement of the Company and the lenders, subject to certain customary conditions. During fiscal 2019, the highest daily borrowing was \$250.0 million; the average daily borrowings were \$140.7 million. The Company borrowed \$1,084.5 million and repaid \$989.5 million of revolving borrowings under the Credit Facility.

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during fiscal 2019. The Company was in compliance with all financial covenants relating to the Credit Agreement, 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 September 28, 2019.

The Credit Agreement and the 2018 NPA allow for the future payment of cash dividends or the repurchase of shares provided that no event of default (including any failure to comply with a financial covenant) exists at the time of, or would be caused by, the dividend payment or the share repurchases. We have not paid cash dividends in the past. However, we evaluate from time to time potential uses of excess cash, which in the future may include share repurchases above those already authorized, a special dividend or recurring dividends.

The Company has Master Accounts Receivable Purchase Agreements with MUFG Bank, New York Branch (formerly known as The Bank of Tokyo-Mitsubishi UFJ, Ltd.) (the "MUFG RPA"), and HSBC Bank (China) Company Limited, Xiamen branch (the "HSBC RPA"), under which the Company may elect to sell receivables, at a discount, on an ongoing basis. The MUFG RPA was amended in fiscal 2019 to increase the maximum facility amount from \$260.0 million to \$280.0 million. The maximum facility amount under the HSBC RPA as of September 28, 2019 is \$60.0 million. The MUFG RPA is subject to expiration on December 13, 2019, but will be automatically extended each year unless any party gives no less than 10 days prior notice that the agreement should not be extended. The terms of the HSBC RPA are generally consistent with the terms of the MUFG RPA discussed above.

The Company sold \$919.3 million and \$712.9 million of trade accounts receivable under these programs during fiscal years 2019 and 2018, respectively, in exchange for cash proceeds of \$913.6 million and \$708.6 million, respectively.

In all cases, the sale discount was recorded within "Miscellaneous, net" in the Consolidated Statements of Comprehensive Income in the period of the sale. For further information regarding the receivable sale programs, see Note 14, "Trade Accounts Receivable Sale Programs," in Notes to Consolidated Financial Statements.

Subsequent to September 28, 2019, a significant customer was removed from the MUFG RPA, and we are currently seeking alternatives to mitigate cash flow impacts. The customer had \$40.4 million of outstanding receivables sold as of September 28, 2019.

Based on current expectations, we believe that our projected cash flows provided by operations, available cash and cash equivalents, potential borrowings under the Credit Facility and our leasing capabilities should be sufficient to meet our working capital and fixed capital requirements for the next twelve months. If our future financing needs increase, we may need to arrange additional debt or equity financing. Accordingly, we evaluate and consider from time to time various financing alternatives to supplement our financial resources. However, we cannot be assured that we will be able to make any such arrangements on acceptable terms.

**CONTRACTUAL OBLIGATIONS, COMMITMENTS AND OFF-BALANCE SHEET OBLIGATIONS**

Our disclosures regarding contractual obligations and commercial commitments are located in various parts of our regulatory filings. Information in the following table provides a summary of our contractual obligations and commercial commitments as of September 28, 2019 (dollars in millions):

| Contractual Obligations                                | Payments Due by Fiscal Year |                 |                |                |                     |
|--|-----------------------------|-----------------|----------------|----------------|---------------------|
|  | Total                       | 2020            | 2021-2022      | 2023-2024      | 2025 and thereafter |
| Debt Obligations (1)                                   | \$ 288.3                    | \$ 101.2        | \$ 12.4        | \$ 12.2        | \$ 162.5            |
| Capital Lease Obligations (2)                          | 49.8                        | 6.7             | 6.4            | 2.5            | 34.2                |
| Operating Lease Obligations                            | 40.8                        | 10.4            | 12.2           | 8.8            | 9.4                 |
| Purchase Obligations (3)                               | 620.0                       | 598.8           | 20.7           | 0.4            | 0.1                 |
| Repatriation Tax on Undistributed Foreign Earnings (4) | 65.1                        | 5.5             | 11.4           | 16.3           | 31.9                |
| Other Liabilities on the Balance Sheet (5)             | 15.0                        | 3.3             | 4.0            | 0.6            | 7.1                 |
| Other Liabilities not on the Balance Sheet (6)         | 8.6                         | 1.8             | —              | 1.3            | 5.5                 |
| Other Financing Obligations (7)                        | 119.0                       | 4.3             | 9.0            | 9.4            | 96.3                |
| <b>Total Contractual Cash Obligations</b>              | <b>\$ 1,206.6</b>           | <b>\$ 732.0</b> | <b>\$ 76.1</b> | <b>\$ 51.5</b> | <b>\$ 347.0</b>     |

- 1) Includes \$150.0 million in principal amount of 2018 Notes as well as interest; see Note 4, "Debt, Capital Lease Obligations and Other Financing," in Notes to Consolidated Financial Statements for further information.
- 2) As of September 28, 2019, capital lease obligations consists of capital lease payments and interest as well as the non-cash financing obligation related to the failed sale-leasebacks in Guadalajara, Mexico; see Note 4, "Debt, Capital Lease Obligations and Other Financing," in Notes to Consolidated Financial Statements for further information.
- 3) As of September 28, 2019, purchase obligations consist primarily of purchases of inventory and equipment in the ordinary course of business.
- 4) Consists of U.S. federal income taxes on the deemed repatriation of undistributed foreign earnings due to Tax Reform. Refer to "Liquidity and Capital Resources" above for further detail.
- 5) As of September 28, 2019, other obligations on the balance sheet included deferred compensation obligations to certain of our former and current executive officers, as well as other key employees, and an asset retirement obligation. We have excluded from the above table the impact of approximately \$2.3 million, as of September 28, 2019, related to unrecognized income tax benefits. The Company cannot make reliable estimates of the future cash flows by period related to these obligations.
- 6) As of September 28, 2019, other obligations not on the balance sheet consist of guarantees and a commitment for salary continuation and certain benefits in the event employment of one executive officer of the Company is terminated without cause. Excluded from the amounts disclosed are certain bonus and incentive compensation amounts, which would be paid on a prorated basis in the year of termination.
- 7) Includes future minimum lease payments for two facilities in Guadalajara, Mexico, leased under 10-year and 15-year base lease agreements, both of which include two 5-year renewal options; see Note 4, "Debt, Capital Lease Obligations and Other Financing," in Notes to Consolidated Financial Statements for further information.

## DISCLOSURE ABOUT CRITICAL ACCOUNTING ESTIMATES

Our accounting policies are disclosed in Note 1 of Notes to Consolidated Financial Statements. During fiscal 2019, other than changes related to revenue recognition, there were no material changes to these policies. Our more critical accounting estimates are described below:

*Revenue Recognition:* ASU 2014-09, Topic 606, which was adopted at the beginning of fiscal 2019, resulted in a change to the timing of revenue recognition for a significant portion of the Company's revenue, whereby revenue is now recognized over time as products are produced, as opposed to at a point in time based upon shipping terms. Since adopting the standard, revenue is recognized over time for arrangements with customers for which: (i) the Company's performance does not create an asset with an alternative use to the Company, and (ii) the Company has an enforceable right to payment, including a reasonable profit margin, for performance completed to date. Revenue recognized over time is estimated based on costs incurred to date plus a reasonable profit margin. If either of the two conditions noted above are not met to recognize revenue over time, revenue is recognized following the transfer of control of such products to the customer, which typically occurs upon shipment or delivery depending on the terms of the underlying arrangement.

The Company recognizes revenue when a contract exists and when, or as, it satisfies a performance obligation by transferring control of a product or service to a customer. Contracts are accounted for when they have approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of consideration is probable. A performance obligation is a promise in a contract to transfer a distinct good or service to the customer.

The Company generally enters into a master services arrangement that establishes the framework under which business will be conducted. These arrangements represent the master terms and conditions of the Company's services that apply to individual orders, but they do not commit the customer to work with, or to continue to work with, the Company nor do they obligate the customer to any specific volume or pricing of purchases. Moreover, these terms can be amended in appropriate situations. Customer purchase orders are received for specific quantities with predominantly fixed pricing and delivery requirements. Thus, for the majority of our contracts, there is no guarantee of any revenue to the Company until a customer submits a purchase order. As a result, the Company generally considers its arrangement with a customer to be the combination of the master services arrangement and the purchase order. Most of the Company's arrangements with customers create a single performance obligation as the promise to transfer the individual manufactured product or service is capable of being distinct.

The Company's performance obligations are satisfied over time as work progresses or at a point in time. A performance obligation is satisfied over time if the Company has an enforceable right to payment, including a reasonable profit margin. Determining if an enforceable right to payment includes a reasonable profit margin requires judgment and is assessed on a contract by contract basis.

If an enforceable right to payment for work-in-process does not exist, revenue is recognized following the transfer of control of such products to the customer, which typically occurs upon shipment or delivery depending on the terms of the underlying contract.

For contracts requiring over time revenue recognition, the selection of the method to measure progress towards completion requires judgment and is based on the nature of the products or services to be provided. The Company uses a cost-based input measurement of progress because it best depicts the transfer of assets to the customer, which occurs as costs are incurred during the manufacturing process or as services are rendered. Under the cost-based measure of progress, the extent of progress towards completion is measured based on the costs incurred to date.

Generally, there are no subjective customer acceptance requirements or further obligations related to goods or services provided; if such requirements or obligations exist, then a sale is recognized at the time when such requirements are completed and such obligations are fulfilled.

The Company does not allow for a general right of return. Net sales include amounts billed to customers for shipping and handling and out-of-pocket expenses. The corresponding shipping and handling costs and out-of-pocket expenses are included in cost of sales. Taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction, that are collected by the Company from a customer, are excluded from net sales.

Net sales from engineering design and development services, which are generally performed under contracts with a duration of twelve months or less, are typically recognized as program costs are incurred by utilizing the proportional performance model. The completed performance model is used if certain customer acceptance criteria exist. Any losses are recognized when anticipated.

*Income Taxes:* Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating

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loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The Company maintains valuation allowances when it is more likely than not that all or a portion of a deferred tax asset will not be realized. In determining whether a valuation allowance is required, the Company takes into account such factors as prior earnings history, expected future earnings, carryback and carryforward periods, and tax strategies that could potentially enhance the likelihood of the realization of a deferred tax asset.

*Share-Based Compensation:* Generally accepted accounting principles require all grants of share-based compensation to employees to be measured at fair value and expensed in the Consolidated Statements of Comprehensive Income over the service period (generally the vesting period) of the grant. We use the Black-Scholes valuation model to value stock options, the Monte Carlo valuation model to value performance stock units with market conditions and the share price on the date of grant for performance stock units that vest based on other non-market-based performance conditions.

*Inventories:* Inventories are valued at the lower of cost or market. Cost is determined by the first-in, first-out ("FIFO") method. Valuing inventories at the lower of cost or market requires the use of estimates and judgment. Customers may cancel their orders, change production quantities or delay production for a number of reasons that are beyond the Company's control. Any of these, or certain additional actions, could impact the valuation of inventory. Any actions taken by the Company's customers that could impact the value of its inventory are considered when determining the lower of cost or market valuations.

*Impairment of Long-Lived Assets:* Long-lived assets, including property, plant and equipment and intangible assets with finite lives are reviewed for impairment and written down to fair value when facts and circumstances indicate that the carrying value of long-lived assets or asset groups may not be recoverable through estimated future undiscounted cash flows. If an impairment has occurred, a write-down to estimated fair value is made and the impairment loss is recognized as a charge against current operations. The impairment analysis is based on management's assumptions, including future revenue and cash flow projections. Circumstances that may lead to impairment of property, plant and equipment and intangible assets with finite lives include reduced expectations for future performance or industry demand and possible further restructurings, among others.

### **NEW ACCOUNTING PRONOUNCEMENTS**

See Note 1, "Description of Business and Significant Accounting Policies," in Notes to Consolidated Financial Statements regarding recent accounting pronouncements.

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk from changes in foreign exchange and interest rates. We selectively use financial instruments to reduce such risks. We do not use derivative financial instruments for speculative purposes.

### Foreign Currency Risk

Our international operations create potential foreign exchange risk. Our policy is to selectively hedge our foreign currency denominated transactions in a manner that partially offsets the effects of changes in foreign currency exchange rates. We typically use foreign currency contracts to hedge only those currency exposures associated with certain assets and liabilities denominated in non-functional currencies. Corresponding gains and losses on the underlying transaction generally offset the gains and losses on these foreign currency hedges.

Our percentages of transactions denominated in currencies other than the U.S. dollar for the indicated fiscal years were as follows:

|             | 2019 | 2018 |
|-------------|------|------|
| Net Sales   | 10%  | 10%  |
| Total Costs | 16%  | 15%  |

The Company has evaluated the potential foreign currency exchange rate risk on transactions denominated in currencies other than the U.S. dollar for the periods presented above. Based on the Company's overall currency exposure, as of September 28, 2019, a 10.0% change in the value of the U.S. dollar relative to our other transactional currencies would not have a material effect on the Company's financial position, results of operations, or cash flows.

### Interest Rate Risk

We have financial instruments, including cash equivalents and debt, which are sensitive to changes in interest rates. The primary objective of our investment activities is to preserve principal, while maximizing yields without significantly increasing market risk. To achieve this, we maintain our portfolio of cash equivalents in a variety of highly rated securities, money market funds and certificates of deposit, and limit the amount of principal exposure to any one issuer.

As of September 28, 2019, our only material interest rate risk is associated with our Credit Facility. Borrowings under the Credit Facility bear interest, at the Company's option, at a eurocurrency or base rate plus, in each case, an applicable interest rate margin based on the Company's then-current leverage ratio (as defined in the Credit Agreement). As of September 28, 2019, the borrowing rate under the Credit Agreement was LIBOR plus 1.10%. The Company is monitoring developments related to LIBOR; see also Part I, Item 1A "Risk Factors" for more information. Borrowings under the 2018 NPA are based on a fixed interest rate, thus mitigating much of our interest rate risk. Based on the Company's overall interest rate exposure, as of September 28, 2019, a 10.0% change in interest rates would not have a material effect on the Company's financial position, results of operations, or cash flows.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

**PLEXUS CORP.**  
**List of Financial Statements and Financial Statement Schedule**  
**September 28, 2019**

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| Financial Statement Schedule:  |                    |
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NOTE: All other financial statement schedules are omitted because they are not applicable or the required information is included in the Consolidated Financial Statements or notes thereto.

## Report of Independent Registered Public Accounting Firm

To the Shareholders  
and Board of Directors  
of Plexus Corp.

### ***Opinions on the Financial Statements and Internal Control over Financial Reporting***

We have audited the accompanying consolidated balance sheets of Plexus Corp. and its subsidiaries (the "Company") as of September 28, 2019 and September 29, 2018, and the related consolidated statements of comprehensive income, of shareholders' equity, and of cash flows for each of the three years in the period ended September 28, 2019, including the related notes and financial statement schedule listed in the accompanying index (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of September 28, 2019, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of September 28, 2019 and September 29, 2018, and the results of its operations and its cash flows for each of the three years in the period ended September 28, 2019 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of September 28, 2019, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

### ***Change in Accounting Principle***

As discussed in Note 1 to the consolidated financial statements, the Company changed the manner in which it accounts for revenue from contracts with customers in 2019.

### ***Basis for Opinions***

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Annual Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

### ***Definition and Limitations of Internal Control over Financial Reporting***

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures



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that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

***Critical Audit Matters***

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

*Arrangements with customers for which revenue is recognized over time*

As described in Note 15 to the consolidated financial statements, approximately 90% of the Company's revenue for the year ended September 28, 2019 was recognized as products were produced or services were rendered over time. Revenue is recognized over time for arrangements with customers for which (i) the Company's performance does not create an asset with an alternative use to the Company and (ii) the Company has an enforceable right to payment, including a reasonable profit margin, for performance completed to date. Determining if an enforceable right to payment includes a reasonable profit margin requires judgment and is assessed on a contract by contract basis. If either of these two conditions are not met to recognize revenue over time, revenue is recognized following the transfer of control of such products to the customer, which typically occurs upon shipment or delivery depending on the terms of the underlying arrangement. Management recognizes revenue over time using a cost-based input measurement of progress. Under this method, the extent of progress towards completion is measured based on the costs incurred to date. Revenue recognized over time is estimated based on costs incurred to date plus a reasonable profit margin.

The principal considerations for our determination that performing procedures relating to arrangements with customers for which revenue is recognized over time is a critical audit matter are that there was significant judgment by management in (i) determining which arrangements with customers meet the criteria for revenue to be recognized over time and (ii) estimating the amount of revenue to be recognized for in-progress performance obligations, including estimating a reasonable profit margin. This in turn led to significant auditor judgment, subjectivity, and effort in performing procedures to evaluate arrangements where revenue is recognized over time, including the costs incurred to date and estimated reasonable profit margin.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the revenue recognition process, including controls relating to management's determination of which arrangements with customers met the criteria for revenue to be recognized over time and estimating the amount of revenue recognized for these arrangements. These procedures also included, among others, (i) testing management's process for determining which arrangements with customers met the criteria for revenue to be recognized over time, (ii) testing the accuracy and completeness of costs incurred to date for selected arrangements, (iii) evaluating the reasonableness of management's estimate of profit margins, and (iv) testing the appropriateness of the timing and amount of revenue recognized based on the underlying inputs and estimates for selected arrangements.

/s/PricewaterhouseCoopers LLP  
Milwaukee, Wisconsin  
November 15, 2019

We have served as the Company's auditor since at least 1985. We have not been able to determine the specific year we began serving as auditor of the Company.

**PLEXUS CORP. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**for the fiscal years ended September 28, 2019, September 29, 2018 and September 30, 2017**  
**(in thousands, except per share data)**

|   | 2019         | 2018         | 2017         |
|---|--------------|--------------|--------------|
| Net sales                                   | \$ 3,164,434 | \$ 2,873,508 | \$ 2,528,052 |
| Cost of sales                               | 2,872,596    | 2,615,908    | 2,272,197    |
| Gross profit                                | 291,838      | 257,600      | 255,855      |
| Selling and administrative expenses         | 148,105      | 139,317      | 125,947      |
| Restructuring costs                         | 1,678        | —            | —            |
| Operating income                            | 142,055      | 118,283      | 129,908      |
| Other income (expense):                     |              |              |              |
| Interest expense                            | (12,853)     | (12,226)     | (13,578)     |
| Interest income                             | 1,949        | 4,696        | 5,042        |
| Miscellaneous, net                          | (5,196)      | (3,143)      | 451          |
| Income before income taxes                  | 125,955      | 107,610      | 121,823      |
| Income tax expense                          | 17,339       | 94,570       | 9,761        |
| Net income                                  | \$ 108,616   | \$ 13,040    | \$ 112,062   |
| Earnings per share:                         |              |              |              |
| Basic                                       | \$ 3.59      | \$ 0.40      | \$ 3.33      |
| Diluted                                     | \$ 3.50      | \$ 0.38      | \$ 3.24      |
| Weighted average shares outstanding:        |              |              |              |
| Basic                                       | 30,271       | 33,003       | 33,612       |
| Diluted                                     | 31,074       | 33,919       | 34,553       |
| Comprehensive income:                       |              |              |              |
| Net income                                  | \$ 108,616   | \$ 13,040    | \$ 112,062   |
| Other comprehensive (loss) income:          |              |              |              |
| Derivative instrument fair value adjustment | 1,050        | (3,942)      | 2,405        |
| Foreign currency translation adjustments    | (6,855)      | (3,058)      | 4,155        |
| Other comprehensive (loss) income           | (5,805)      | (7,000)      | 6,560        |
| Total comprehensive income                  | \$ 102,811   | \$ 6,040     | \$ 118,622   |

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

**PLEXUS CORP. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**as of September 28, 2019 and September 29, 2018**  
**(in thousands, except per share data)**

|   | 2019         | 2018         |
|---|--------------|--------------|
| <b>ASSETS</b>   |              |              |
| Current assets:   |              |              |
| Cash and cash equivalents   | \$ 223,761   | \$ 297,269   |
| Restricted cash   | 2,493        | 417          |
| Accounts receivable, net of allowances of \$1,537 and \$885, respectively   | 488,284      | 394,827      |
| Contract assets   | 90,841       | —            |
| Inventories, net  | 700,938      | 794,346      |
| Prepaid expenses and other  | 31,974       | 30,302       |
| Total current assets  | 1,538,291    | 1,517,161    |
| Property, plant and equipment, net  | 384,224      | 341,306      |
| Deferred income taxes   | 13,654       | 10,825       |
| Other   | 64,714       | 63,350       |
| Total non-current assets  | 462,592      | 415,481      |
| Total assets  | \$ 2,000,883 | \$ 1,932,642 |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>   |              |              |
| Current liabilities:  |              |              |
| Current portion of long-term debt and capital lease obligations   | \$ 100,702   | \$ 5,532     |
| Accounts payable  | 444,944      | 506,322      |
| Customer deposits   | 139,841      | 90,782       |
| Accrued salaries and wages  | 73,555       | 66,874       |
| Other accrued liabilities   | 106,461      | 68,163       |
| Total current liabilities   | 865,503      | 737,673      |
| Long-term debt and capital lease obligations, net of current portion  | 187,278      | 183,085      |
| Long-term accrued income taxes payable  | 59,572       | 56,130       |
| Deferred income taxes payable   | 5,305        | 14,376       |
| Other liabilities   | 17,649       | 20,235       |
| Total non-current liabilities   | 269,804      | 273,826      |
| Total liabilities   | 1,135,307    | 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, 52,917 and 52,567 shares issued, respectively, and 29,004 and 31,838 shares outstanding, respectively | 529          | 526          |
| Additional paid-in capital  | 597,401      | 581,488      |
| Common stock held in treasury, at cost, 23,913 and 20,729 shares, respectively  | (893,247)    | (711,138)    |
| Retained earnings   | 1,178,677    | 1,062,246    |
| Accumulated other comprehensive loss  | (17,784)     | (11,979)     |
| Total shareholders' equity  | 865,576      | 921,143      |
| Total liabilities and shareholders' equity  | \$ 2,000,883 | \$ 1,932,642 |

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

**PLEXUS CORP. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
**for the fiscal years ended September 28, 2019, September 29, 2018 and September 30, 2017**  
**(in thousands)**

|   | 2019              | 2018              | 2017                |
|---|-------------------|-------------------|---------------------|
| <b>Common stock - shares outstanding</b>  |                   |                   |                     |
| Beginning of period   | 31,838            | 33,464            | 33,457              |
| Exercise of stock options and vesting of other stock awards                         | 350               | 633               | 662                 |
| Treasury shares purchased   | (3,184)           | (2,259)           | (655)               |
| End of period   | <u>29,004</u>     | <u>31,838</u>     | <u>33,464</u>       |
| <b>Total stockholders' equity, beginning of period</b>                              |                   |                   |                     |
|   | \$ 921,143        | \$ 1,025,939      | \$ 916,797          |
| <b>Common stock - par value</b>   |                   |                   |                     |
| Beginning of period   | 526               | 519               | 513                 |
| Exercise of stock options and vesting of other stock awards                         | 3                 | 7                 | 6                   |
| End of period   | <u>529</u>        | <u>526</u>        | <u>519</u>          |
| <b>Additional paid-in capital</b>   |                   |                   |                     |
| Beginning of period   | 581,488           | 555,297           | 530,647             |
| Stock-based compensation expense  | 21,335            | 17,981            | 17,411              |
| Exercise of stock options and vesting of other stock awards, including tax benefits | (5,422)           | 8,210             | 7,239               |
| End of period   | <u>597,401</u>    | <u>581,488</u>    | <u>555,297</u>      |
| <b>Treasury stock</b>   |                   |                   |                     |
| Beginning of period   | (711,138)         | (574,104)         | (539,968)           |
| Treasury shares purchased   | (182,109)         | (137,034)         | (34,136)            |
| End of period   | <u>(893,247)</u>  | <u>(711,138)</u>  | <u>(574,104)</u>    |
| <b>Retained earnings</b>  |                   |                   |                     |
| Beginning of period   | 1,062,246         | 1,049,206         | 937,144             |
| Net income  | 108,616           | 13,040            | 112,062             |
| Cumulative effect adjustment for adoption of new accounting pronouncement (1)       | 7,815             | —                 | —                   |
| End of period   | <u>1,178,677</u>  | <u>1,062,246</u>  | <u>1,049,206</u>    |
| <b>Accumulated other comprehensive (loss) income</b>                                |                   |                   |                     |
| Beginning of period   | (11,979)          | (4,979)           | (11,539)            |
| Other comprehensive (loss) income   | (5,805)           | (7,000)           | 6,560               |
| End of period   | <u>(17,784)</u>   | <u>(11,979)</u>   | <u>(4,979)</u>      |
| Total stockholders' equity, end of period   | <u>\$ 865,576</u> | <u>\$ 921,143</u> | <u>\$ 1,025,939</u> |

(1) See Note 1, "Description of Business and Significant Accounting Policies," for a discussion of recently adopted accounting pronouncements.

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

**PLEXUS CORP. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
for the fiscal years ended September 28, 2019, September 29, 2018 and September 30, 2017  
(in thousands)

|  | 2019              | 2018              | 2017              |
|--|-------------------|-------------------|-------------------|
| <b>Cash flows from operating activities</b>                                      |                   |                   |                   |
| Net income   | \$ 108,616        | \$ 13,040         | \$ 112,062        |
| Adjustments to reconcile net income to net cash flows from operating activities: |                   |                   |                   |
| Depreciation and amortization  | 52,206            | 48,296            | 45,330            |
| Deferred income taxes  | (9,764)           | 20,388            | (366)             |
| Share-based compensation expense   | 21,335            | 17,981            | 17,411            |
| Other, net   | 204               | (196)             | 149               |
| Changes in operating assets and liabilities, excluding impacts of acquisition:   |                   |                   |                   |
| Accounts receivable  | (96,694)          | (30,706)          | 53,705            |
| Contract assets  | (14,526)          | —                 | —                 |
| Inventories  | 18,798            | (140,615)         | (86,072)          |
| Other current and noncurrent assets  | (3,728)           | (19,168)          | (8,740)           |
| Accrued income taxes payable   | 4,125             | 53,504            | 253               |
| Accounts payable   | (56,724)          | 93,342            | 6,894             |
| Customer deposits  | 49,652            | (16,713)          | 22,599            |
| Other current and noncurrent liabilities   | 41,800            | 27,678            | 8,509             |
| Cash flows provided by operating activities                                      | <u>115,300</u>    | <u>66,831</u>     | <u>171,734</u>    |
| <b>Cash flows from investing activities</b>                                      |                   |                   |                   |
| Payments for property, plant and equipment                                       | (90,600)          | (62,780)          | (38,538)          |
| Proceeds from sales of property, plant and equipment                             | 261               | 538               | 704               |
| Business acquisition   | 1,180             | (12,379)          | —                 |
| Other, net   | (200)             | —                 | —                 |
| Cash flows used in investing activities  | <u>(89,359)</u>   | <u>(74,621)</u>   | <u>(37,834)</u>   |
| <b>Cash flows from financing activities</b>                                      |                   |                   |                   |
| Borrowings under debt agreements   | 1,084,500         | 834,341           | 331,076           |
| Payments on debt and capital lease obligations                                   | (993,588)         | (970,258)         | (302,880)         |
| Debt issuance costs  | (603)             | (729)             | —                 |
| Repurchases of common stock  | (182,109)         | (137,034)         | (34,136)          |
| Proceeds from exercise of stock options  | 2,614             | 13,699            | 13,368            |
| Payments related to tax withholding for share-based compensation                 | (8,033)           | (5,482)           | (6,123)           |
| Cash flows (used in) provided by financing activities                            | <u>(97,219)</u>   | <u>(265,463)</u>  | <u>1,305</u>      |
| Effect of exchange rate changes on cash and cash equivalents                     | (154)             | 1,685             | 1,085             |
| Net (decrease) increase in cash and cash equivalents and restricted cash         | <u>(71,432)</u>   | <u>(271,568)</u>  | <u>136,290</u>    |
| Cash and cash equivalents and restricted cash:                                   |                   |                   |                   |
| Beginning of period  | 297,686           | 569,254           | 432,964           |
| End of period  | <u>\$ 226,254</u> | <u>\$ 297,686</u> | <u>\$ 569,254</u> |
| <b>Supplemental disclosure information:</b>                                      |                   |                   |                   |
| Interest paid  | <u>\$ 15,701</u>  | <u>\$ 12,030</u>  | <u>\$ 13,812</u>  |
| Income taxes paid  | <u>\$ 26,277</u>  | <u>\$ 18,891</u>  | <u>\$ 10,158</u>  |

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

## 1. Description of Business and Significant Accounting Policies

*Description of Business:* Plexus Corp. and its subsidiaries (together "Plexus," the "Company," or "we") participate in the Electronic Manufacturing Services ("EMS") industry. We partner with our customers to create the products that build a better world. Plexus has been partnering with companies to transform concepts into branded products and deliver them to customers in the Healthcare/Life Sciences, Industrial/Commercial, Aerospace/Defense and Communications market sectors. Plexus is headquartered in Neenah, Wisconsin and has operations in the Americas ("AMER"), Europe, Middle East, and Africa ("EMEA") and Asia-Pacific ("APAC") regions.

### *Significant Accounting Policies*

*Consolidation Principles and Basis of Presentation:* The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") and include the accounts of Plexus Corp. and its subsidiaries. All intercompany transactions have been eliminated.

Certain prior period amounts have been reclassified to conform to the current period presentation.

The Company's fiscal year ends on the Saturday closest to September 30. The Company also 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. Fiscal 2019, fiscal 2018 and fiscal 2017 each included 52 weeks.

*Cash and Cash Equivalents and Restricted Cash:* Cash equivalents include short-term highly liquid investments and are classified as Level 1 in the fair value hierarchy described below. Restricted cash represents cash received from customers to settle invoices sold under accounts receivable purchase agreements that is contractually required to be set aside. The restrictions will lapse when the cash is remitted to the purchaser of the receivables. Restricted cash is also classified as Level 1 in the fair value hierarchy described below.

As of September 28, 2019 and September 29, 2018, cash and cash equivalents and restricted cash consisted of the following (in thousands):

|   | 2019              | 2018              |
|---|-------------------|-------------------|
| Cash  | \$ 85,688         | \$ 99,197         |
| Money market funds and other                        | 138,073           | 198,072           |
| Restricted cash                                     | 2,493             | 417               |
| Total cash and cash equivalents and restricted cash | <u>\$ 226,254</u> | <u>\$ 297,686</u> |

*Inventories:* Inventories are valued at the lower of cost or market. Cost is determined by the first-in, first-out ("FIFO") method. Valuing inventories at the lower of cost or market requires the use of estimates and judgment. Customers may cancel their orders, change production quantities or delay production for a number of reasons that are beyond the Company's control. Any of these, or certain additional actions, could impact the valuation of inventory. Any actions taken by the Company's customers that could impact the value of its inventory are considered when determining the lower of cost or market valuations.

In certain instances, in accordance with contractual terms, the Company receives customer deposits to offset obsolete and excess inventory risks.

*Property, Plant and Equipment and Depreciation:* Property, plant and equipment is stated at cost and depreciated using the straight-line method over the estimated useful lives of the respective assets. Estimated useful lives for major classes of depreciable assets are generally as follows:

|                                |            |
|--------------------------------|------------|
| Buildings and improvements     | 5-39 years |
| Machinery and equipment        | 3-7 years  |
| Computer hardware and software | 3-10 years |

Certain facilities and equipment held under capital leases are classified as property, plant and equipment and amortized using the straight-line method over the term of the lease and the related obligations are recorded as liabilities. Amortization of assets held under capital leases is included in depreciation expense (see Note 3, "Property, Plant and Equipment") and the financing component of the lease payments is classified as interest expense. Maintenance and repairs are expensed as incurred.

The Company capitalizes significant costs incurred in the acquisition or development of software for internal use. This includes costs of the software, consulting services and compensation costs for employees directly involved in developing internal use computer software.

*Impairment of Long-Lived Assets:* Long-lived assets, including property, plant and equipment and intangible assets with finite lives are reviewed for impairment and written down to fair value when facts and circumstances indicate that the carrying value of long-lived assets or asset groups may not be recoverable through estimated future undiscounted cash flows. If an impairment has occurred, a write-down to estimated fair value is made and the impairment loss is recognized as a charge against current operations. The impairment analysis is based on management's assumptions, including future revenue and cash flow projections. Circumstances that may lead to impairment of property, plant and equipment and intangible assets with finite lives include reduced expectations for future performance or industry demand and possible further restructurings, among others.

*Revenue Recognition:* ASU 2014-09, Topic 606, which was adopted at the beginning of fiscal 2019, resulted in a change to the timing of revenue recognition for a significant portion of the Company's revenue, whereby revenue is now recognized over time as products are produced, as opposed to at a point in time based upon shipping terms. Since adopting the standard, revenue is recognized over time for arrangements with customers for which: (i) the Company's performance does not create an asset with an alternative use to the Company, and (ii) the Company has an enforceable right to payment, including a reasonable profit margin, for performance completed to date. Revenue recognized over time is estimated based on costs incurred to date plus a reasonable profit margin. If either of the two conditions noted above are not met to recognize revenue over time, revenue is recognized following the transfer of control of such products to the customer, which typically occurs upon shipment or delivery depending on the terms of the underlying arrangement.

The Company recognizes revenue when a contract exists and when, or as, it satisfies a performance obligation by transferring control of a product or service to a customer. Contracts are accounted for when they have approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of consideration is probable. A performance obligation is a promise in a contract to transfer a distinct good or service to the customer.

The Company generally enters into a master services arrangement that establishes the framework under which business will be conducted. These arrangements represent the master terms and conditions of the Company's services that apply to individual orders, but they do not commit the customer to work with, or to continue to work with, the Company nor do they obligate the customer to any specific volume or pricing of purchases. Moreover, these terms can be amended in appropriate situations. Customer purchase orders are received for specific quantities with predominantly fixed pricing and delivery requirements. Thus, for the majority of our contracts, there is no guarantee of any revenue to the Company until a customer submits a purchase order. As a result, the Company generally considers its arrangement with a customer to be the combination of the master services arrangement and the purchase order. Most of the Company's arrangements with customers create a single performance obligation as the promise to transfer the individual manufactured product or service is capable of being distinct.

The Company's performance obligations are satisfied over time as work progresses or at a point in time. A performance obligation is satisfied over time if the Company has an enforceable right to payment, including a reasonable profit margin. Determining if an enforceable right to payment includes a reasonable profit margin requires judgment and is assessed on a contract by contract basis.

If an enforceable right to payment for work-in-process does not exist, revenue is recognized following the transfer of control of such products to the customer, which typically occurs upon shipment or delivery depending on the terms of the underlying contract.

For contracts requiring over time revenue recognition, the selection of the method to measure progress towards completion requires judgment and is based on the nature of the products or services to be provided. The Company uses a cost-based input measurement of progress because it best depicts the transfer of assets to the customer, which occurs as costs are incurred during the manufacturing process or as services are rendered. Under the cost-based measure of progress, the extent of progress towards completion is measured based on the costs incurred to date.

Generally, there are no subjective customer acceptance requirements or further obligations related to goods or services provided; if such requirements or obligations exist, then a sale is recognized at the time when such requirements are completed and such obligations are fulfilled.

The Company does not allow for a general right of return. Net sales include amounts billed to customers for shipping and handling and out-of-pocket expenses. The corresponding shipping and handling costs and out-of-pocket expenses are included

in cost of sales. Taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction, that are collected by the Company from a customer, are excluded from net sales.

Net sales from engineering design and development services, which are generally performed under contracts with a duration of twelve months or less, are typically recognized as program costs are incurred by utilizing the proportional performance model. The completed performance model is used if certain customer acceptance criteria exist. Any losses are recognized when anticipated. Net sales from engineering design and development services were less than 5.0% of consolidated net sales for each of fiscal 2019, 2018 and 2017.

*Income Taxes:* Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The Company maintains valuation allowances when it is more likely than not that all or a portion of a deferred tax asset will not be realized. In determining whether a valuation allowance is required, the Company takes into account such factors as prior earnings history, expected future earnings, carryback and carryforward periods, and tax strategies that could potentially enhance the likelihood of the realization of a deferred tax asset.

*Foreign Currency Translation & Transactions:* The Company translates assets and liabilities of subsidiaries operating outside of the U.S. with a functional currency other than the U.S. dollar into U.S. dollars using exchange rates in effect at the relevant balance sheet date and net sales, expenses and cash flows at the average exchange rates during the respective periods. Adjustments resulting from translation of the financial statements are recorded as a component of "Accumulated other comprehensive loss." Exchange gains and losses arising from transactions denominated in a currency other than the functional currency of the entity involved and remeasurement adjustments for foreign operations where the U.S. dollar is the functional currency are included in the Consolidated Statements of Comprehensive Income as a component of "Miscellaneous, net." Exchange gains on foreign currency transactions were \$0.5 million, \$1.2 million and \$2.3 million for fiscal 2019, 2018 and 2017, respectively. These amounts include the amount of gain recognized in income during each fiscal year due to forward currency exchange contracts entered into to hedge recognized assets or liabilities ("non-designated hedges") the Company entered into during each respective year. Refer to Note 5, "Derivatives and Fair Value Measurements," for further details on derivatives.

*Derivatives:* All derivatives are recognized on the balance sheets at fair value. The Company periodically enters into forward currency exchange contracts and interest rate swaps. On the date a derivative contract is entered into, the Company designates the derivative as a non-designated hedge or a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability (a "cash flow" hedge). The Company does not enter into derivatives for speculative purposes. Changes in the fair value of non-designated derivatives are recorded in earnings as are the gains or losses related to the hedged asset or liability. Changes in the fair value of a derivative that qualifies as a cash flow hedge are recorded in "Accumulated other comprehensive loss" within shareholders' equity, until earnings are affected by the variability of cash flows. Certain forward currency exchange contracts are treated as cash flow hedges and, therefore, \$1.1 million, \$(3.9) million and \$2.4 million was recorded in "Accumulated other comprehensive loss" for fiscal 2019, 2018 and 2017, respectively. See Note 5, "Derivatives and Fair Value Measurements," for further information.

*Grants from Government Authorities:* Grants from governments are recognized at their fair value where there is reasonable assurance that the grant funds will be received and the Company will comply with all attached conditions to the grant. Government grants relating to property, plant and equipment are recorded as an offset to the carrying value of the related assets at the time of capitalization. Government grants relating to other costs incurred are recognized as an offset to those related costs, for which the grants are intended to compensate for, at the time they are recognized.

*Earnings Per Share:* The computation of basic earnings per common share is based upon the weighted average number of common shares outstanding and net income. The computation of diluted earnings per common share reflects additional dilution from share-based awards, excluding any with an antidilutive effect. See Note 7, "Earnings Per Share," for further information.

*Share-based Compensation:* The Company measures all grants of share-based payments to employees, including grants of employee stock options, at fair value and expenses them in the Consolidated Statements of Comprehensive Income over the service period (generally the vesting period) of the grant. See Note 9, "Benefit Plans," for further information.

*Comprehensive Income (Loss):* The Company follows the established standards for reporting comprehensive income (loss), which is defined as the changes in equity of an enterprise except those resulting from shareholder transactions.



Accumulated other comprehensive loss consists of the following as of September 28, 2019 and September 29, 2018 (in thousands):

|   | 2019               | 2018               |
|---|--------------------|--------------------|
| Foreign currency translation adjustments                  | \$ (17,395)        | \$ (10,540)        |
| Cumulative change in fair value of derivative instruments | (389)              | (1,439)            |
| Accumulated other comprehensive loss                      | <u>\$ (17,784)</u> | <u>\$ (11,979)</u> |

Refer to Note 5, "Derivatives and Fair Value Measurements," for further explanation regarding the change in fair value of derivative instruments that is recorded to "Accumulated other comprehensive loss."

*Use of Estimates:* The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

*Fair Value of Financial Instruments:* The Company holds financial instruments consisting of cash and cash equivalents, restricted cash, accounts receivable, certain deferred compensation assets held under trust arrangements, accounts payable, debt, derivatives, and capital lease obligations. The carrying values of cash and cash equivalents, restricted cash, accounts receivable, and accounts payable as reported in the consolidated financial statements approximate fair value. Derivatives and certain deferred compensation assets held under trust arrangements are recorded at fair value. Accounts receivable are reflected at net realizable value based on anticipated losses due to potentially uncollectible balances. Anticipated losses are based on management's analysis of historical losses and changes in customers' credit status. The fair value of the Company's debt was \$252.3 million and \$151.9 million as of September 28, 2019 and September 29, 2018, respectively. The carrying value of the Company's debt was \$245.0 million and \$150.0 million as of September 28, 2019 and September 29, 2018, respectively. The Company uses quoted market prices when available or discounted cash flows to calculate fair value. If measured at fair value in the financial statements, long-term debt (including the current portion) would be classified as Level 2 in the fair value hierarchy described below. The fair values of the Company's derivatives are disclosed in Note 5, "Derivatives and Fair Value Measurements." The fair values of the deferred compensation assets held under trust arrangements are discussed in Note 9, "Benefit Plans."

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (or exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The accounting guidance establishes a fair value hierarchy based on three levels of inputs that may be used to measure fair value. The input levels are:

Level 1: Quoted (observable) market prices in active markets for identical assets or liabilities.

Level 2: Inputs other than Level 1 that are observable, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the asset or liability.

*Business and Credit Concentrations:* Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash, cash equivalents, trade accounts receivable and derivative instruments, specifically related to counterparties. In accordance with the Company's investment policy, the Company's cash, cash equivalents and derivative instruments were placed with recognized financial institutions. The Company's investment policy limits the amount of credit exposure in any one issue and the maturity date of the investment securities that typically comprise investment grade short-term debt instruments. Concentrations of credit risk in accounts receivable resulting from sales to major customers are discussed in Note 11, "Reportable Segments, Geographic Information and Major Customers". The Company, at times, requires cash deposits for services performed. The Company also closely monitors extensions of credit.

*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 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 was 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 fiscal 2019 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 15, "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 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. The standard must be adopted using a modified retrospective approach. The Company will adopt the standard in the first quarter of fiscal year 2020 and intends to elect the package of practical expedients offered, which allows entities to not reassess: (i) whether any contracts prior to the adoption date are or contain leases, (ii) lease classification, and (iii) whether capitalized initial direct costs continue to meet the definition of initial direct costs under the new guidance. For all new and modified leases after adoption, management elected the short-term lease recognition exemption for all of the Company's leases that qualify, in addition to the practical expedient to not separate lease and nonlease components. Upon adoption of this new guidance, the Company expects to recognize \$35 million to \$55 million of right-of-use assets and corresponding lease liabilities on its Consolidated Balance Sheets. The Company also expects to reclassify amounts currently held on the balance sheet to right-of-use assets and lease liabilities upon adoption due to existing arrangements subject to the new standard. In addition, the Company expects to recognize a decrease to fiscal 2020 beginning Retained Earnings of \$0 - \$5 million as a result of two existing build-to-suit arrangements for the facilities in Guadalajara, Mexico that were reassessed to be finance leases under the new standard. The Company does not expect the adoption will have a material impact to its Consolidated Statements of Cash Flows or Consolidated Statements of Comprehensive Income.

In June 2016, the FASB issued ASU 2016-13, which replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and required consideration of a broader range of reasonable and supportable information to inform credit loss estimates. This guidance is effective for the Company beginning in the first quarter of fiscal year 2021. 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.

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. The adoption of the new standard is not expected to have a material impact on the Company's Consolidated Financial Statements; however, the impact of the new standard on future periods will depend on the facts and circumstances of future transactions.

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 September 28, 2019 and September 29, 2018 consisted of the following (in thousands):

|                        | 2019              | 2018              |
|------------------------|-------------------|-------------------|
| Raw materials          | \$ 577,545        | \$ 579,377        |
| Work-in-process        | 49,315            | 102,337           |
| Finished goods         | 74,078            | 112,632           |
| Total inventories, net | <u>\$ 700,938</u> | <u>\$ 794,346</u> |

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 Consolidated Balance Sheets as of September 28, 2019 and September 29, 2018 was \$136.5 million and \$87.7 million, respectively.

In fiscal 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 fiscal 2018. Refer to Note 15, "Revenue from Contracts with Customers," for further information.

**3. Property, Plant and Equipment**

Property, plant and equipment as of September 28, 2019 and September 29, 2018 consisted of the following (in thousands):

|  | 2019              | 2018              |
|--|-------------------|-------------------|
| Land, buildings and improvements           | \$ 289,051        | \$ 267,809        |
| Machinery and equipment                    | 381,656           | 364,034           |
| Computer hardware and software             | 136,227           | 130,645           |
| Capital assets in progress                 | 49,599            | 38,469            |
| Total property, plant and equipment, gross | <u>856,533</u>    | <u>800,957</u>    |
| Less: accumulated depreciation             | <u>(472,309)</u>  | <u>(459,651)</u>  |
| Total property, plant and equipment, net   | <u>\$ 384,224</u> | <u>\$ 341,306</u> |

Assets held under capital leases and included in property, plant and equipment as of September 28, 2019 and September 29, 2018 consisted of the following (in thousands):

|  | 2019             | 2018             |
|--|------------------|------------------|
| Buildings and improvements   | \$ 23,717        | \$ 23,717        |
| Machinery and equipment  | 12,293           | 10,995           |
| Capital assets in progress   | 11,831           | 7,747            |
| Total property, plant and equipment held under capital leases, gross | <u>47,841</u>    | <u>42,459</u>    |
| Less: accumulated amortization                                       | <u>(8,762)</u>   | <u>(6,123)</u>   |
| Total property, plant and equipment held under capital leases, net   | <u>\$ 39,079</u> | <u>\$ 36,336</u> |

Amortization of assets held under capital leases totaled \$3.8 million, \$3.4 million and \$3.0 million for fiscal 2019, 2018 and 2017, respectively. Capital lease additions totaled \$6.7 million, \$11.8 million, and \$20.5 million for fiscal 2019, 2018 and 2017, respectively.

As of September 28, 2019, September 29, 2018 and September 30, 2017, accounts payable included approximately \$10.0 million, \$11.2 million and \$10.8 million, respectively, related to the purchase of property, plant and equipment, which have been treated as non-cash transactions for purposes of the Consolidated Statements of Cash Flows.

**4. Debt, Capital Lease Obligations and Other Financing**

Debt and capital lease obligations as of September 28, 2019 and September 29, 2018, consisted of the following (in thousands):

|  | 2019       | 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                                 | 95,000     | —          |
| Capital lease and other financing obligations                        | 44,492     | 39,857     |
| Unamortized deferred financing fees                                  | (1,512)    | (1,240)    |
| Total obligations  | 287,980    | 188,617    |
| Less: current portion  | (100,702)  | (5,532)    |
| Long-term debt and capital lease obligations, net of current portion | \$ 187,278 | \$ 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 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 September 28, 2019, the Company was in compliance with the covenants under the 2018 NPA.

In connection with the issuance of the 2018 Notes, on June 15, 2018, the Company repaid, on maturity \$175.0 million in principal amount of its previous 5.20% Senior Notes.

On May 15, 2019, the Company refinanced its then-existing senior unsecured revolving credit facility (the "Prior Credit Facility") by entering into a new 5-year senior unsecured revolving credit facility (collectively with the Prior Credit Facility, referred to as the "Credit Facility"), which expanded the maximum commitment from \$300.0 million to \$350.0 million and extended the maturity from July 5, 2021 to May 15, 2024. The maximum commitment under the Credit Facility may be further increased to \$600.0 million, generally by mutual agreement of the Company and the lenders, subject to certain customary conditions. During fiscal 2019, the highest daily borrowing was \$250.0 million; the average daily borrowings were \$140.7 million. The Company borrowed \$1,084.5 million and repaid \$989.5 million of revolving borrowings under the Credit Facility during fiscal 2019. The Company was in compliance with all financial covenants relating to the Credit Agreement, 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 0.125% as of September 28, 2019.

The aggregate scheduled maturities of the Company's debt obligations as of September 28, 2019, are as follows (in thousands):

|            |            |
|------------|------------|
| 2020       | \$ 95,000  |
| 2021       | —          |
| 2022       | —          |
| 2023       | —          |
| 2024       | —          |
| Thereafter | 150,000    |
| Total      | \$ 245,000 |

The aggregate scheduled maturities of the Company's capital leases and other financing obligations as of September 28, 2019, are as follows (in thousands):

|            |    |               |
|------------|----|---------------|
| 2020       | \$ | 5,718         |
| 2021       |    | 2,651         |
| 2022       |    | 2,166         |
| 2023       |    | 1,018         |
| 2024       |    | 358           |
| Thereafter |    | 32,581        |
| Total      | \$ | <u>44,492</u> |

The Company's weighted average interest rate on capital lease obligations was 4.82% and 4.87% as of September 28, 2019 and September 29, 2018, respectively.

The "Thereafter" line of the scheduled maturities of capital lease obligations table above includes an \$8.8 million non-cash financing obligation related to a failed sale-leaseback of a building shell in Guadalajara, Mexico that was capitalized in fiscal 2014. This obligation will be increased by interest expense and land rent expense, and reduced by contractual payments during the 20-year lease term. The lease contains a 10-year base lease agreement with two 5-year renewal options. As of September 29, 2018, the balance of the related financing obligation totaled \$8.6 million. At the end of the 20-year lease term, the net book value of the assets will approximate the balance of the financing obligation. If the Company does not exercise both renewal options or exercises the first but not the second, it would record a loss related to the disposal of the underlying assets in operating results of \$4.1 million in fiscal 2024 or \$0.8 million in fiscal 2029.

Construction on a second manufacturing facility in Guadalajara, Mexico began in fiscal 2018, resulting in an additional \$11.6 million of non-cash financing obligations that were capitalized as of September 28, 2019. As of September 29, 2018, the balance of the related financing obligation totaled \$7.2 million. This obligation will be increased as construction costs are incurred and also by interest expense and land rent expense, and reduced by contractual payments during the 25-year lease term. The lease contains a 15-year base lease agreement with two 5-year renewal options. The obligation is included in the "Thereafter" line of the scheduled maturities of capital lease obligations table above, as well as in long-term debt and capital lease obligations, net of current portion, on the accompanying Consolidated Balance Sheets as of September 28, 2019.

The future minimum payments under the remainder of the leases for the two facilities in Guadalajara, which are leased under 10-year and 15-year base lease agreements, as well as the two 5-year renewal options for each lease are as follows (in thousands):

|  |    |                |
|--|----|----------------|
| 2020   | \$ | 4,332          |
| 2021   |    | 4,441          |
| 2022   |    | 4,552          |
| 2023   |    | 4,665          |
| 2024   |    | 4,782          |
| Thereafter (2025 - 2044, through both five-year renewal options for each building) |    | 96,268         |
| Total  | \$ | <u>119,040</u> |

## 5. Derivatives and Fair Value Measurements

All derivatives are recognized in the accompanying 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.

The Company designates some foreign currency exchange contracts as cash flow hedges of forecasted foreign currency expenses. Changes in the fair value of the derivatives that qualify as cash flow hedges are recorded in "Accumulated other comprehensive loss" in the accompanying Consolidated Balance Sheets until earnings are affected by the variability of the cash flows. In the next twelve months, the Company estimates that \$0.6 million of unrealized losses, net of tax, related to cash flow

hedges will be reclassified from other comprehensive (loss) income 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 Consolidated Statements of Comprehensive Income.

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 \$80.0 million as of September 28, 2019, and a notional value of \$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 \$0.6 million liability as of September 28, 2019, and a \$1.7 million liability as of September 29, 2018.

The Company had additional forward currency exchange contracts outstanding as of September 28, 2019, with a notional value of \$34.4 million; there were \$28.6 million such contracts outstanding 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 Consolidated Balance Sheets as either a current or long-term asset or liability, depending on the term, and as an element of "Miscellaneous, net." The total fair value of these derivatives was a \$0.9 million asset as of September 28, 2019, and a \$0.1 million liability as of September 29, 2018.

The tables below present information regarding the fair values of derivative instruments (as defined in Note 1, "Description of Business and Significant Accounting Policies") and the effects of derivative instruments on the Company's Consolidated Financial Statements:

**Fair Values of Derivative Instruments (in thousands)**

| Derivatives designated as hedging instruments | Balance Sheet Classification | Asset Derivatives  |                    | Liability Derivatives        |                    |                    |
|---|------------------------------|--------------------|--------------------|------------------------------|--------------------|--------------------|
|   |                              | September 28, 2019 | September 29, 2018 | Balance Sheet Classification | September 28, 2019 | September 29, 2018 |
|   |                              | Fair Value         | Fair Value         |                              | Fair Value         | Fair Value         |
| Forward currency forward contracts            | Prepaid expenses and other   | \$ 156             | \$ 292             | Other accrued liabilities    | \$ 798             | \$ 1,984           |

**Fair Values of Derivative Instruments (in thousands)**

| Derivatives not designated as hedging instruments | Balance Sheet Classification | Asset Derivatives  |                    | Liability Derivatives        |                    |                    |
|---|------------------------------|--------------------|--------------------|------------------------------|--------------------|--------------------|
|   |                              | September 28, 2019 | September 29, 2018 | Balance Sheet Classification | September 28, 2019 | September 29, 2018 |
|   |                              | Fair Value         | Fair Value         |                              | Fair Value         | Fair Value         |
| Forward currency forward contracts                | Prepaid expenses and other   | \$ 912             | \$ 42              | Other accrued liabilities    | \$ 54              | \$ 81              |

**Derivative Impact on Accumulated Other Comprehensive (Loss) Income ("OCL") (in thousands)**

**for the Twelve Months Ended**

| Derivatives in Cash Flow Hedging Relationships | Amount of (Loss) Gain Recognized in OCL on Derivatives (Effective Portion) |                    |                    |
|--|--|--------------------|--------------------|
|  | September 28, 2019   | September 29, 2018 | September 30, 2017 |
| Interest rate swaps                            | \$ —   | \$ —               | \$ (10)            |
| Forward currency forward contracts             | \$ (629)   | \$ 2,579           | \$ (848)           |

**Derivative Impact on (Loss) Gain Recognized in Income (in thousands)**

**for the Twelve Months Ended**

| Derivatives in Cash Flow Hedging Relationships | Classification of (Loss) Gain Reclassified from Accumulated OCL into Income (Effective Portion) | Amount of (Loss) Gain Reclassified from Accumulated OCL into Income (Effective Portion) |                    |                    |
|--|---|---|--------------------|--------------------|
|  |   | September 28, 2019  | September 29, 2018 | September 30, 2017 |
|  |   | Interest rate swaps   | Interest expense   | \$ —               |
| Forward currency forward contracts             | Selling and administrative expenses   | \$ (173)  | \$ 619             | \$ (317)           |
| Forward currency forward contracts             | Cost of sales   | \$ (1,506)  | \$ 5,676           | \$ (3,041)         |
| Treasury rate locks                            | Interest expense  | \$ —  | \$ 226             | \$ 321             |
| Interest rate swaps                            | Income tax expense  | \$ —  | \$ —               | \$ (84)            |

| Derivatives Not Designated as Hedging Instruments | Location of Gain Recognized on Derivatives in Income | Amount of Gain on Derivatives Recognized in Income |                    |                    |
|---|--|--|--------------------|--------------------|
|   |  | September 28, 2019                                 | September 29, 2018 | September 30, 2017 |
| Forward currency forward contracts                | Miscellaneous, net                                   | \$ 2,098   | \$ 263             | \$ 2,153           |

There were no gains or losses recognized in income for derivatives related to ineffective portions and amounts excluded from effectiveness testing for fiscal years 2019, 2018 and 2017.

The following table lists the fair values of liabilities of the Company's derivatives as of September 28, 2019 and September 29, 2018, by input level as defined in Note 1, "Description of Business and Significant Accounting Policies":

| Fair Value Measurements Using Input Levels Asset/(Liability) (in thousands) |         |            |         |            |
|---|---------|------------|---------|------------|
| Fiscal year ended September 28, 2019  | Level 1 | Level 2    | Level 3 | Total      |
| Derivatives   |         |            |         |            |
| Forward currency forward contracts  | \$ —    | \$ 216     | \$ —    | \$ 216     |
| Fiscal year ended September 29, 2018  |         |            |         |            |
| Derivatives   |         |            |         |            |
| Forward currency forward contracts  | \$ —    | \$ (1,731) | \$ —    | \$ (1,731) |

The fair value of foreign currency forward contracts is determined using a market approach, which includes obtaining directly or indirectly observable values from third parties active in the relevant markets. Inputs in the fair value of the foreign currency forward contracts include prevailing forward and spot prices for currency and interest rate forward curves.

## 6. Income Taxes

The domestic and foreign components of income (loss) before income tax expense for fiscal 2019, 2018 and 2017 were as follows (in thousands):

|             | 2019              | 2018              | 2017              |
|-------------|-------------------|-------------------|-------------------|
| U.S. (1)    | \$ (42,806)       | \$ (53,243)       | \$ (35,209)       |
| Foreign (1) | 168,761           | 160,853           | 157,032           |
|             | <u>\$ 125,955</u> | <u>\$ 107,610</u> | <u>\$ 121,823</u> |

(1) The U.S. and Foreign components of income (loss) before income tax expense include the elimination of intercompany foreign dividends paid to the Company's U.S. operations.

Income tax expense (benefit) for fiscal 2019, 2018 and 2017 were as follows (in thousands):

|           | 2019             | 2018             | 2017            |
|-----------|------------------|------------------|-----------------|
| Current:  |                  |                  |                 |
| Federal   | \$ 15,160        | \$ 63,814        | \$ 78           |
| State     | —                | 234              | 33              |
| Foreign   | 11,943           | 10,134           | 10,016          |
|           | <u>27,103</u>    | <u>74,182</u>    | <u>10,127</u>   |
| Deferred: |                  |                  |                 |
| Federal   | (3,498)          | (2,958)          | 77              |
| State     | 827              | (447)            | 38              |
| Foreign   | (7,093)          | 23,793           | (481)           |
|           | <u>(9,764)</u>   | <u>20,388</u>    | <u>(366)</u>    |
|           | <u>\$ 17,339</u> | <u>\$ 94,570</u> | <u>\$ 9,761</u> |

The following is a reconciliation of the federal statutory income tax rate to the effective income tax rates reflected in the Consolidated Statements of Comprehensive Income for fiscal 2019, 2018 and 2017:

|   | 2019   | 2018   | 2017   |
|---|--------|--------|--------|
| Federal statutory income tax rate                       | 21.0 % | 24.5 % | 35.0 % |
| Increase (decrease) resulting from:                     |        |        |        |
| Foreign tax rate differences                            | (21.0) | (30.2) | (39.9) |
| Withholding tax on dividends                            | (5.4)  | 23.7   | —      |
| Permanent differences                                   | (1.3)  | 0.8    | 3.0    |
| Excess tax benefits related to share-based compensation | (1.3)  | (2.7)  | (2.0)  |
| Global intangible low-taxed income ("GILTI")            | 11.7   | —      | —      |
| Deemed repatriation tax                                 | 5.6    | 92.2   | —      |
| Non-deductible compensation                             | 1.5    | 0.2    | 0.2    |
| Valuation allowances                                    | 1.5    | (30.6) | 12.2   |
| Rate changes  | —      | 9.0    | —      |
| Other, net  | 1.5    | 1.0    | (0.5)  |
| Effective income tax rate                               | 13.8 % | 87.9 % | 8.0 %  |

The effective tax rate for fiscal 2019 was lower than the effective tax rate for fiscal 2018 primarily due to the impact of the U.S. Tax Cuts and Jobs Act ("Tax Reform") that was recorded in fiscal 2018. During fiscal 2019, the Company reasserted that certain historical undistributed earnings of two foreign subsidiaries will be permanently reinvested which provided a \$10.5 million benefit to the effective tax rate. The impact of the changes in the Company's assertion has been included in "Withholding tax on dividends" in the effective income tax reconciliation above. The reduction to the effective tax rate compared to fiscal 2018 was offset by an increase due to the GILTI provisions of Tax Reform in fiscal 2019. The GILTI impact in the table above includes the deduction allowed by the regulations as well as the foreign tax credits attributed to GILTI. The Company has elected to treat the income tax effects of GILTI as a period cost. The effective tax rate for fiscal 2018 was higher than the effective tax rate for fiscal 2017 primarily due to expenses related to Tax Reform.

During fiscal 2019, the Company recorded a \$1.9 million increase to its valuation allowance due to continuing losses in certain jurisdictions within the AMER and EMEA segments, partially offset by an expiration of net operating losses that had a valuation allowance recorded.

During fiscal 2018, the Company recorded a \$32.9 million reduction to its valuation allowance which includes \$9.7 million related to the U.S. federal tax rate change as part of Tax Reform from 35% to 21%, \$21.0 million of carryforward credits and net operating losses utilized against the deemed repatriation of undistributed foreign earnings and \$3.6 million for the release of the U.S. valuation allowance due to the expected future U.S. taxable income related to the GILTI provisions of Tax Reform. These benefits were partially offset by a \$1.4 million increase in foreign valuation allowances in the EMEA segment.

During fiscal 2017, the Company recorded a \$14.9 million addition to its valuation allowance relating to continuing losses in certain jurisdictions within the AMER and EMEA segments.



The components of the net deferred income tax assets as of September 28, 2019 and September 29, 2018, were as follows (in thousands):

|  | 2019      | 2018       |
|--|-----------|------------|
| Deferred income tax assets:                  |           |            |
| Loss/credit carryforwards                    | \$ 28,391 | \$ 27,915  |
| Inventories                                  | 16,809    | 6,459      |
| Accrued benefits                             | 15,834    | 14,459     |
| Other  | 3,353     | 3,450      |
| Total gross deferred income tax assets       | 64,387    | 52,283     |
| Less valuation allowances                    | (29,170)  | (28,369)   |
| Deferred income tax assets                   | 35,217    | 23,914     |
| Deferred income tax liabilities:             |           |            |
| Property, plant and equipment                | 15,621    | 12,530     |
| Tax on unremitted earnings                   | 5,192     | 14,935     |
| Acceleration of revenue under Topic 606      | 6,055     | —          |
| Deferred income tax liabilities              | 26,868    | 27,465     |
| Net deferred income tax assets/(liabilities) | \$ 8,349  | \$ (3,551) |

During fiscal 2019, the Company's valuation allowance increased by \$0.8 million. This increase is the result of increases to the valuation allowances against the net deferred tax assets in the AMER region of \$1.7 million, partially offset by a decrease in net deferred tax assets in the EMEA region of \$0.9 million.

As of September 28, 2019, the Company had approximately \$189.2 million of pre-tax state net operating loss carryforwards that expire between fiscal 2020 and 2040. Certain state net operating losses have a full valuation allowance against them. The Company also had approximately \$79.6 million of pre-tax foreign net operating loss carryforwards that expire between fiscal 2019 and 2025 or are indefinitely carried forward. These foreign net operating losses have a full valuation allowance against them.

During fiscal 2019, proposed and final regulations were issued and tax legislation was adopted in various jurisdictions. The impacts of these regulations and legislation on the Company's consolidated financial condition, results of operations and cash flows are included above.

The Company has been granted a tax holiday for a foreign subsidiary in the APAC segment. This tax holiday will expire on December 31, 2024, and is subject to certain conditions with which the Company expects to continue to comply. During fiscal 2019, 2018 and 2017, the tax holiday resulted in tax reductions of approximately \$23.9 million net of the impact of the GILTI provisions of Tax Reform (\$0.79 per basic share, \$0.77 per diluted share), \$39.1 million (\$1.19 per basic share, \$1.15 per diluted share) and \$37.5 million (\$1.11 per basic share, \$1.08 per diluted share), respectively.

The Company does not provide for taxes that would be payable if certain undistributed earnings of foreign subsidiaries were remitted because the Company considers these earnings to be permanently reinvested. The deferred tax liability that has not been recorded for these earnings was approximately \$10.5 million as of September 28, 2019.

The Company has approximately \$2.3 million of uncertain tax benefits as of September 28, 2019. The Company has classified these amounts in the Consolidated Balance Sheets as "Other liabilities" (noncurrent) in the amount of \$1.5 million and an offset to "Deferred income taxes" (noncurrent asset) in the amount of \$0.8 million. The Company has classified these amounts as "Other liabilities" (noncurrent) and "Deferred income taxes" (noncurrent asset) to the extent that payment is not anticipated within one year.

The following is a reconciliation of the beginning and ending amounts of unrecognized income tax benefits (in thousands):

|   | 2019            | 2018            | 2017            |
|---|-----------------|-----------------|-----------------|
| Balance at beginning of fiscal year                   | \$ 5,841        | \$ 3,115        | \$ 2,799        |
| Gross increases for tax positions of prior years      | 62              | 21              | 184             |
| Gross increases for tax positions of the current year | 39              | 2,893           | 163             |
| Gross decreases for tax positions of prior years      | (3,672)         | (188)           | (31)            |
| Balance at end of fiscal year                         | <u>\$ 2,270</u> | <u>\$ 5,841</u> | <u>\$ 3,115</u> |

The amount of unrecognized tax benefits that, if recognized, would impact the effective tax rate is \$1.5 million and \$4.6 million for the fiscal years ended September 28, 2019 and September 29, 2018, respectively.

The Company recognizes accrued interest and penalties related to unrecognized tax benefits in income tax expense. The total accrued penalties and net accrued interest with respect to income taxes was approximately \$0.2 million for each of the fiscal years ended September 28, 2019, September 29, 2018 and September 30, 2017. The Company recognized less than \$0.1 million of expense for accrued penalties and net accrued interest in the Consolidated Statements of Comprehensive Income for each of the fiscal years ended September 28, 2019, September 29, 2018 and September 30, 2017.

It is possible that a number of uncertain tax positions may be settled within the next 12 months. Settlement of these matters is not expected to have a material effect on the Company's consolidated results of operations, financial position and cash flows.

The Company files income tax returns, including returns for its subsidiaries, with federal, state, local and foreign taxing jurisdictions. The following tax years remain subject to examination by the respective major tax jurisdictions:

| <i>Jurisdiction</i> | <i>Fiscal Years</i>  |
|---------------------|----------------------|
| China               | 2014-2019            |
| Germany             | 2014-2019            |
| Malaysia            | 2015-2019            |
| Mexico              | 2014-2019            |
| Romania             | 2013-2019            |
| United Kingdom      | 2016-2019            |
| United States       |                      |
| Federal             | 2011, 2013-2019      |
| State               | 2003-2006, 2009-2019 |

## 7. Earnings Per Share

The following is a reconciliation of the amounts utilized in the computation of basic and diluted earnings per share for fiscal 2019, 2018 and 2017 (in thousands, except per share amounts):

|   | 2019           | 2018           | 2017           |
|---|----------------|----------------|----------------|
| Net income  | \$ 108,616     | \$ 13,040      | \$ 112,062     |
| Basic weighted average common shares outstanding              | 30,271         | 33,003         | 33,612         |
| Dilutive effect of share-based awards and options outstanding | 803            | 916            | 941            |
| Diluted weighted average shares outstanding                   | <u>31,074</u>  | <u>33,919</u>  | <u>34,553</u>  |
| Earnings per share:   |                |                |                |
| Basic   | \$ 3.59        | \$ 0.40        | \$ 3.33        |
| Diluted   | <u>\$ 3.50</u> | <u>\$ 0.38</u> | <u>\$ 3.24</u> |

In each of the fiscal years 2019, 2018 and 2017, share-based awards for approximately 0.1 million shares were not included in the computation of diluted earnings per share as they were antidilutive.

## 8. Operating Lease Commitments

The Company has a number of operating lease agreements primarily involving manufacturing facilities, manufacturing equipment and computerized design equipment. These leases are non-cancelable and expire on various dates through fiscal 2028, and many contain renewal and/or purchase options. Rent expense under all operating leases for fiscal 2019, 2018 and 2017 was approximately \$12.9 million, \$12.0 million and \$13.7 million, respectively.

Future minimum annual payments on operating leases are as follows (in thousands):

|   |    |               |
|---|----|---------------|
| 2020  | \$ | 10,395        |
| 2021  |    | 6,554         |
| 2022  |    | 5,584         |
| 2023  |    | 5,153         |
| 2024  |    | 3,713         |
| Thereafter                                    |    | 9,426         |
| Total future minimum operating lease payments | \$ | <u>40,825</u> |

## 9. Benefit Plans

*Share-based Compensation Plans:* The Plexus Corp. 2016 Omnibus Incentive Plan (the "2016 Plan"), which was approved by shareholders, is a stock and cash-based incentive plan, and includes provisions by which the Company may grant executive officers, employees and directors stock options, stock appreciation rights ("SARs"), restricted stock (including restricted stock units ("RSUs")), performance stock awards (including performance stock units ("PSUs")), other stock awards and cash incentive awards. Similar awards were offered under its predecessor, the 2008 Long-Term Incentive Plan (the "2008 Plan"), which is no longer being used for grants; however, outstanding awards granted under the 2008 Plan and its predecessors continue in accordance with their terms.

The maximum number of shares of Plexus common stock that may be issued pursuant to the 2016 Plan is 3.2 million shares; in addition, cash incentive awards of up to \$4.0 million per employee may be granted annually. The exercise price of each stock option and SAR granted must not be less than the fair market value on the date of grant. The Compensation and Leadership Development Committee (the "Committee") of the Board of Directors may establish a term and vesting period for awards under the 2016 Plan as well as accelerate the vesting of such awards. Generally, stock options vest in two annual installments and have a term of ten years. SARs vest in two annual installments and have a term of seven years. RSUs granted to executive officers, other officers and key employees generally vest on the third anniversary of the grant date (assuming continued employment), which is also the date as of which the underlying shares will be issued. Beginning for fiscal 2017 grants, 50% of PSUs vest based on the relative total shareholder return ("TSR") of the Company's common stock as compared to the companies in the Russell 3000 Index, a market condition, and the remaining 50% vest based upon a three-point annual average of the Company's absolute economic return, a performance condition, each during a performance period of three years performance period. The PSUs granted in fiscal 2016 and prior years vested based solely on the relative TSR of the Company's common stock as compared to companies in the Russell 3000 Index during a performance period of three years. The Committee also grants RSUs to non-employee directors, which generally fully vest on the first anniversary of the grant date, which is also the date the underlying shares are issued (unless further deferred).

The Company recognized \$21.3 million, \$18.0 million and \$17.4 million of compensation expense associated with share-based awards in fiscal 2019, 2018 and 2017, respectively. Deferred tax benefits related to equity awards of \$9.2 million and \$8.2 million were recognized in fiscal 2019 and 2018, respectively. No deferred tax benefits related to equity awards were recognized in fiscal 2017.

A summary of the Company's stock option and SAR activity follows:

|                                      | Number of<br>Options/SARs<br>(in thousands) | Weighted<br>Average Exercise Price | Aggregate<br>Intrinsic Value<br>(in thousands) |
|--------------------------------------|---|------------------------------------|--|
| Outstanding as of October 1, 2016    | 1,461                                       | \$ 34.59                           |  |
| Granted                              | 36  | 45.45                              |  |
| Canceled                             | (4)   | 30.88                              |  |
| Exercised                            | (521)                                       | 32.29                              |  |
| Outstanding as of September 30, 2017 | 972   | \$ 36.23                           |  |
| Granted                              | —   | —                                  |  |
| Canceled                             | (4)   | 31.62                              |  |
| Exercised                            | (414)                                       | 35.01                              |  |
| Outstanding as of September 29, 2018 | 554   | \$ 37.18                           |  |
| Granted                              | —   | —                                  |  |
| Canceled                             | (2)   | 26.96                              |  |
| Exercised                            | (88)  | 31.55                              |  |
| Outstanding as of September 28, 2019 | 464   | \$ 38.28                           | \$ 11,274                                      |

|                    | Number of<br>Options/SARs<br>(in thousands) | Weighted<br>Average Exercise Price | Weighted Average<br>Remaining Life (years) | Aggregate<br>Intrinsic Value<br>(in thousands) |
|--------------------|---|------------------------------------|--|--|
| Exercisable as of: |   |                                    |  |  |
| September 30, 2017 | 865   | \$ 35.62                           |  |  |
| September 29, 2018 | 537   | \$ 36.92                           |  |  |
| September 28, 2019 | 464   | \$ 38.28                           | 3.72                                       | \$ 11,274                                      |

The following table summarizes outstanding stock option and SAR information as of September 28, 2019 (Options/SARs in thousands):

| Range of<br>Exercise Prices | Number<br>of Options/SARs Outstanding<br>(in thousands) | Weighted Average<br>Exercise Price | Weighted Average<br>Remaining Life<br>(years) | Number of Options /<br>SARs Exercisable<br>(in thousands) | Weighted Average<br>Exercise Price |
|-----------------------------|---|------------------------------------|---|---|------------------------------------|
| \$25.33 - \$33.06           | 118   | \$ 28.57                           | 2.69  | 118   | \$ 28.57                           |
| \$33.07 - \$40.64           | 131   | \$ 37.67                           | 4.32  | 131   | \$ 37.67                           |
| \$40.65 - \$44.48           | 130   | \$ 43.00                           | 3.51  | 130   | \$ 43.00                           |
| \$44.49 - \$45.45           | 85  | \$ 45.38                           | 4.53  | 85  | \$ 45.38                           |
| \$25.33 - \$45.45           | 464   | \$ 38.28                           | 3.72  | 464   | \$ 38.28                           |

The Company uses the Black-Scholes valuation model to value options and SARs. The Company used its historical stock prices as the basis for its volatility assumptions. The assumed risk-free rates were based on U.S. Treasury rates in effect at the time of grant with a term consistent with the expected option and SAR lives. The expected options and SARs lives represent the period of time that the options and SARs granted are expected to be outstanding and were based on historical experience.

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There were no options or SARs granted for fiscal 2019 or 2018. The weighted average fair value per share of options and SARs granted for fiscal 2017 was \$15.66. The fair value of each option and SAR grant was estimated at the date of grant in fiscal 2017 using the Black-Scholes option-pricing model based on the assumption ranges below:

|                         |       |
|-------------------------|-------|
|                         | 2017  |
| Expected life (years)   | 5.70  |
| Risk-free interest rate | 1.50% |
| Expected volatility     | 34%   |
| Dividend yield          | —     |

The fair value of options and SARs vested for fiscal 2019, 2018 and 2017 was \$0.3 million, \$1.3 million and \$3.5 million, respectively.

For fiscal 2019, 2018 and 2017, the total intrinsic value of options and SARs exercised was \$2.4 million, \$10.9 million and \$10.2 million, respectively.

As of September 28, 2019, all previously granted options and SARs have vested.

A summary of the Company's PSU and RSU activity follows:

|  | Number of Shares<br>(in thousands) | Weighted Average Fair<br>Value at Date of Grant | Aggregate<br>Intrinsic Value<br>(in thousands) |
|--|------------------------------------|---|--|
| Units outstanding as of October 1, 2016    | 1,022                              | \$ 41.49  |  |
| Granted                                    | 397                                | 54.21   |  |
| Canceled                                   | (22)                               | 41.17   |  |
| Vested                                     | (329)                              | 43.76   |  |
| Units outstanding as of September 30, 2017 | 1,068                              | \$ 45.97  |  |
| Granted                                    | 331                                | 61.88   |  |
| Canceled                                   | (42)                               | 46.74   |  |
| Vested                                     | (324)                              | 45.48   |  |
| Units outstanding as of September 29, 2018 | 1,033                              | \$ 51.19  |  |
| Granted                                    | 375                                | 55.76   |  |
| Canceled                                   | (38)                               | 54.03   |  |
| Vested                                     | (408)                              | 41.51   |  |
| Units outstanding as of September 28, 2019 | 962                                | \$ 56.97  | \$ 60,193                                      |

The Company uses the fair value at the date of grant to value RSUs. As of September 28, 2019, there was \$15.4 million of unrecognized compensation expense related to RSUs that is expected to be recognized over a weighted average period of 1.3 years.

The Company uses the Monte Carlo valuation model to determine the fair value of PSUs at the date of grant for PSUs that vest based on relative TSR performance. The Company uses the stock price on the date of grant for PSUs that vest based on economic return. Vesting of all PSUs granted in fiscal 2016 and prior years is based on the relative TSR of Plexus stock as compared to the TSR of companies in the Russell 3000 Index during a performance period of three years. Beginning in fiscal 2017, 50% of the PSUs vest based on relative TSR performance, with the other 50% vesting based on a three-point annual average of the Company's absolute economic return, each during a performance period of three years. The vesting and payout of awards will range between 0% and 200% of the shares granted based upon performance on the metrics during a performance period. Payout at target, 100% of the shares granted, will occur if the TSR of Plexus stock is at the 50th percentile of companies in the Russell 3000 Index during the performance period and if a 2.5% average economic return is achieved over the performance period of three years. The number of shares that may be issued pursuant to PSUs ranges from zero to 0.5 million.

The Company recognizes share-based compensation expense over the vesting period of PSUs. During the fiscal year ended September 28, 2019, the 0.1 million PSUs granted in fiscal 2016 vested at a 173.2% payout based upon the TSR performance achieved during the performance period. There were 0.1 million PSUs granted during each of fiscal years 2019, 2018 and 2017.

As of September 28, 2019, at the target achievement level, there was \$7.8 million of unrecognized compensation expense related to PSUs that is expected to be recognized over a weighted average period of 1.9 years.

*401(k) Savings Plan:* The Company's 401(k) Retirement Plan covers all eligible U.S. employees. The Company matches employee contributions up to 4.0% of eligible earnings. The Company's contributions for fiscal 2019, 2018 and 2017 totaled \$9.3 million, \$8.1 million and \$7.5 million, respectively.

*Deferred Compensation Arrangements:* The Company has agreements with certain former executive officers to provide nonqualified deferred compensation. Under these agreements, the Company agrees to pay these former executives, or their designated beneficiaries upon such executives' deaths, certain amounts annually for the first 15 years subsequent to their retirement. As of both September 28, 2019 and September 29, 2018, the related deferred compensation liability associated with these arrangements totaled \$0.2 million.

The Company maintains investments in a trust account to fund required payments under these deferred compensation arrangements. As of September 28, 2019 and September 29, 2018, the total value of the assets held by the trust totaled \$10.4 million and \$10.0 million, respectively, and was recorded at fair value on a recurring basis. These assets were classified as Level 2 in the fair value hierarchy discussed in Note 1, "Description of Business and Significant Accounting Policies." During fiscal 2019, 2018 and 2017, the Company made payments to the participants in the amount of \$0.1 million, \$0.1 million and \$0.4 million, respectively.

*Supplemental Executive Retirement Plan:* The Company also maintains a supplemental executive retirement plan (the "SERP") as an additional deferred compensation plan for executive officers. Under the SERP, a covered executive may elect to defer some or all of the participant's compensation into the plan, and the Company may credit the participant's account with a discretionary employer contribution. Participants are entitled to payment of deferred amounts and any related earnings upon termination or retirement from Plexus.

The SERP allows investment of deferred compensation into individual accounts and, within these accounts, into one or more designated investments. Investment choices do not include Plexus stock. During fiscal 2019, 2018 and 2017, the Company made contributions to the participants' SERP accounts in the amount of \$0.6 million, \$1.0 million and \$1.2 million, respectively.

As of September 28, 2019 and September 29, 2018, the SERP assets held in the trust totaled \$12.1 million and \$11.7 million, respectively, and the related liability to the participants totaled approximately \$12.1 million and \$11.7 million, respectively. As of September 28, 2019 and September 29, 2018, the SERP assets held in the trust were recorded at fair value on a recurring basis, and were classified as Level 2 in the fair value hierarchy discussed in Note 1, "Description of Business and Significant Accounting Policies."

The trust assets are subject to the claims of the Company's creditors. The deferred compensation and trust assets and the related liabilities to the participants are included in non-current "Other assets" and non-current "Other liabilities," respectively, in the accompanying Consolidated Balance Sheets.

## **10. Litigation**

The Company is party to lawsuits in the ordinary course of business. Management does not believe that these proceedings, individually or in the aggregate, will have a material positive or adverse effect on the Company's consolidated financial position, results of operations or cash flows.

## **11. Reportable Segments, Geographic Information and Major Customers**

Reportable segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or group, in assessing performance and allocating resources. The Company uses an internal management reporting system, which provides important financial data to evaluate performance and allocate the Company's resources on a regional basis. Net sales for the segments are attributed to the region in which the product is manufactured or the service is performed. The services provided, manufacturing processes used, class of customers serviced and order fulfillment processes used are similar and generally interchangeable across the segments. A segment's performance is evaluated based upon its operating income (loss). A segment's operating income (loss) includes its net sales less cost of sales and selling and administrative expenses, but excludes corporate and other expenses. Corporate and other expenses

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primarily represent corporate selling and administrative expenses, and restructuring costs and other charges, if any, such as the \$1.7 million of restructuring costs in fiscal 2019 and the \$13.5 million one-time employee bonus paid to full-time, non-executive employees during fiscal 2018 due to the Company's ability to access overseas cash as a result of Tax Reform (the "one-time employee bonus"). These costs are not allocated to the segments, as management excludes such costs when assessing the performance of the segments. Inter-segment transactions are generally recorded at amounts that approximate arm's length transactions. The accounting policies for the segments are the same as for the Company taken as a whole.

Information about the Company's three reportable segments for fiscal 2019, 2018 and 2017 is as follows (in thousands):

|                                    | 2019                | 2018                | 2017                |
|------------------------------------|---------------------|---------------------|---------------------|
| <b>Net sales:</b>                  |                     |                     |                     |
| AMER                               | \$ 1,429,308        | \$ 1,218,944        | \$ 1,166,346        |
| APAC                               | 1,557,205           | 1,498,010           | 1,279,261           |
| EMEA                               | 309,933             | 281,489             | 192,829             |
| Elimination of inter-segment sales | (132,012)           | (124,935)           | (110,384)           |
|                                    | <u>\$ 3,164,434</u> | <u>\$ 2,873,508</u> | <u>\$ 2,528,052</u> |
| <b>Operating income (loss):</b>    |                     |                     |                     |
| AMER                               | \$ 57,780           | \$ 38,637           | \$ 41,924           |
| APAC                               | 208,178             | 213,935             | 200,103             |
| EMEA                               | 4,475               | 1,447               | (6,197)             |
| Corporate and other costs          | (128,378)           | (135,736)           | (105,922)           |
|                                    | <u>\$ 142,055</u>   | <u>\$ 118,283</u>   | <u>\$ 129,908</u>   |
| <b>Other income (expense):</b>     |                     |                     |                     |
| Interest expense                   | \$ (12,853)         | \$ (12,226)         | \$ (13,578)         |
| Interest income                    | 1,949               | 4,696               | 5,042               |
| Miscellaneous, net                 | (5,196)             | (3,143)             | 451                 |
| Income before income taxes         | <u>\$ 125,955</u>   | <u>\$ 107,610</u>   | <u>\$ 121,823</u>   |

|                      | 2019             | 2018             | 2017             |
|----------------------|------------------|------------------|------------------|
| <b>Depreciation:</b> |                  |                  |                  |
| AMER                 | \$ 22,531        | \$ 21,224        | \$ 19,694        |
| APAC                 | 16,905           | 15,954           | 15,588           |
| EMEA                 | 6,105            | 6,054            | 5,467            |
| Corporate            | 5,344            | 4,863            | 4,581            |
|                      | <u>\$ 50,885</u> | <u>\$ 48,095</u> | <u>\$ 45,330</u> |

|                              |                  |                  |                  |
|------------------------------|------------------|------------------|------------------|
| <b>Capital expenditures:</b> |                  |                  |                  |
| AMER                         | \$ 42,459        | \$ 17,690        | \$ 18,111        |
| APAC                         | 33,454           | 33,018           | 13,816           |
| EMEA                         | 5,186            | 7,923            | 5,748            |
| Corporate                    | 9,501            | 4,149            | 863              |
|                              | <u>\$ 90,600</u> | <u>\$ 62,780</u> | <u>\$ 38,538</u> |

|                            | September 28,<br>2019 | September 29,<br>2018 |
|----------------------------|-----------------------|-----------------------|
| <b>Total assets:</b>       |                       |                       |
| AMER                       | \$ 751,990            | \$ 645,791            |
| APAC                       | 958,744               | 937,510               |
| EMEA                       | 209,541               | 193,797               |
| Corporate and eliminations | 80,608                | 155,544               |
|                            | <u>\$ 2,000,883</u>   | <u>\$ 1,932,642</u>   |

The following information is provided in accordance with the required segment disclosures for fiscal 2019, 2018 and 2017. Net sales were based on the Company's location providing the product or service (in thousands):

|                                    | 2019                | 2018                | 2017                |
|------------------------------------|---------------------|---------------------|---------------------|
| <b>Net sales:</b>                  |                     |                     |                     |
| United States                      | \$ 1,197,665        | \$ 1,000,680        | \$ 984,773          |
| Malaysia                           | 1,138,380           | 1,118,032           | 940,045             |
| China                              | 418,825             | 379,977             | 339,216             |
| Mexico                             | 231,643             | 218,264             | 181,573             |
| Romania                            | 195,837             | 177,111             | 114,363             |
| United Kingdom                     | 99,825              | 91,426              | 70,163              |
| Germany                            | 14,271              | 12,953              | 8,303               |
| Elimination of inter-country sales | (132,012)           | (124,935)           | (110,384)           |
|                                    | <u>\$ 3,164,434</u> | <u>\$ 2,873,508</u> | <u>\$ 2,528,052</u> |



|                    | September 28,<br>2019 | September 29,<br>2018 |
|--------------------|-----------------------|-----------------------|
| Long-lived assets: |                       |                       |
| United States      | \$ 106,757            | \$ 108,694            |
| Malaysia           | 101,636               | 89,938                |
| Mexico             | 73,864                | 43,078                |
| Romania            | 31,033                | 34,316                |
| China              | 22,378                | 21,878                |
| United Kingdom     | 7,344                 | 6,171                 |
| Other Foreign      | 6,751                 | 5,646                 |
| Corporate          | 34,461                | 31,585                |
|                    | <u>\$ 384,224</u>     | <u>\$ 341,306</u>     |

As the Company operates flexible manufacturing facilities and processes designed to accommodate customers with multiple product lines and configurations, it is impracticable to report net sales for individual products or services or groups of similar products and services.

Long-lived assets as of September 28, 2019 and September 29, 2018 exclude other long-term assets, deferred income tax assets and intangible assets, which totaled \$78.4 million and \$74.2 million, respectively.

As a percentage of consolidated net sales, net sales attributable to customers representing 10.0% or more of consolidated net sales for fiscal 2019, 2018 and 2017 were as follows:

|                                 | 2019  | 2018  | 2017  |
|---------------------------------|-------|-------|-------|
| General Electric Company ("GE") | 12.4% | 12.3% | 12.2% |

During fiscal 2019, 2018 and 2017, net sales attributable to GE were reported in all three reportable segments.

As of September 28, 2019, GE represented 10.1% of total accounts receivable. As of September 29, 2018, GE represented 10.9% of total accounts receivable.

## 12. Guarantees

The Company offers certain indemnifications under its customer manufacturing agreements. In the normal course of business, the Company may from time to time be obligated to indemnify its customers or its customers' customers against damages or liabilities arising out of the Company's negligence, misconduct, breach of contract, or infringement of third-party intellectual property rights. Certain agreements have extended broader indemnification, and while most agreements have contractual limits, some do not. However, the Company generally does not provide for such indemnities and seeks indemnification from its customers for damages or liabilities arising out of the Company's adherence to customers' specifications or designs or use of materials furnished, or directed to be used, by its customers. The Company does not believe its obligations under such indemnities are material.

In the normal course of business, the Company also provides its customers a limited warranty covering workmanship, and in some cases materials, on products manufactured by the Company. Such warranty generally provides that products will be free from defects in the Company's workmanship and meet mutually agreed-upon specifications for periods generally ranging from 12 months to 24 months. The Company's obligation is generally limited to correcting, at its expense, any defect by repairing or replacing such defective product. The Company's warranty generally excludes defects resulting from faulty customer-supplied components, design defects or damage caused by any party or cause other than the Company.

The Company provides for an estimate of costs that may be incurred under its limited warranty at the time product revenue is recognized and establishes additional reserves for specifically identified product issues. These costs primarily include labor and materials, as necessary, associated with repair or replacement and are included in the Company's accompanying Consolidated Balance Sheets in "other current accrued liabilities." The primary factors that affect the Company's warranty liability include the value and the number of shipped units and historical and anticipated rates of warranty claims. As these factors are impacted by actual experience and future expectations, the Company assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary.

Below is a table summarizing the activity related to the Company's limited warranty liability for fiscal 2019, 2018 and 2017 (in thousands):

|   |    |         |
|---|----|---------|
| <b>Limited warranty liability, as of October 1, 2016</b>    | \$ | 6,109   |
| Accruals for warranties issued during the period            |    | 912     |
| Settlements (in cash or in kind) during the period          |    | (2,265) |
| <b>Limited warranty liability, as of September 30, 2017</b> |    | 4,756   |
| Accruals for warranties issued during the period            |    | 5,608   |
| Settlements (in cash or in kind) during the period          |    | (3,718) |
| <b>Limited warranty liability, as of September 29, 2018</b> |    | 6,646   |
| Accruals for warranties issued during the period            |    | 3,254   |
| Settlements (in cash or in kind) during the period          |    | (3,624) |
| <b>Limited warranty liability, as of September 28, 2019</b> | \$ | 6,276   |

### 13. Shareholders' Equity

On August 20, 2019, the Board of Directors approved a new stock repurchase plan under which the Company is authorized to repurchase \$50.0 million of its common stock (the "2019 Program"). The 2019 Program commenced upon completion of the 2018 Program, as defined below. During fiscal 2019, the Company repurchased 54,965 shares under this program for \$3.3 million at an average price of \$59.66 per share. As of September 28, 2019, \$46.7 million of authority remained under the 2019 Program.

On February 14, 2018, the Board of Directors approved a stock repurchase plan under which the Company was authorized to repurchase \$200.0 million of its common stock (the "2018 Program"). The 2018 Program commenced upon completion of the 2016 Program, as defined below. During fiscal 2019 and 2018, the Company completed the 2018 Program by repurchasing 3,129,059 and 343,642 shares under this program for \$178.8 million and \$21.2 million, at an average price of \$57.15 and \$61.61 per share, respectively.

On June 6, 2016, the Board of Directors authorized a multi-year stock repurchase program under which the Company was authorized to repurchase up to \$150.0 million of its common stock beginning in fiscal 2017 (the "2016 Program"). During fiscal 2018 and 2017, the Company completed the 2016 Program by repurchasing 1,914,596 and 655,470 shares for \$115.9 million and \$34.1 million, at an average price of \$60.52 and \$52.08 per share, respectively.

All shares repurchased under the aforementioned programs were recorded as treasury stock.

### 14. Trade Accounts Receivable Sale Programs

The Company has Master Accounts Receivable Purchase Agreements with MUFG Bank, New York Branch (formerly known as The Bank of Tokyo-Mitsubishi UFJ, Ltd.) (the "MUFG RPA"), and HSBC Bank (China) Company Limited, Xiamen branch (the "HSBC RPA"), under which the Company may elect to sell receivables; at a discount. These facilities are uncommitted facilities. The MUFG RPA was amended in fiscal 2019 to increase the maximum facility amount from \$260.0 million to \$280.0 million. The maximum facility amount under the HSBC RPA as of September 28, 2019 is \$60.0 million. The MUFG RPA is subject to expiration on December 13, 2019, but will be automatically extended each year unless any party gives no less than 10 days prior notice that the agreement should not be extended. The terms of the HSBC RPA are generally consistent with the terms of the MUFG RPA discussed above.

The Company sold receivables under a former trade accounts receivable sale program that expired during the first fiscal quarter of 2017.

Transfers of receivables under the programs are accounted for as sales and, accordingly, receivables sold under the programs are excluded from accounts receivable on the Consolidated Balance Sheets and are reflected as cash provided by operating activities on the Consolidated Statements of Cash Flows. Proceeds from the transfer reflect the face value of the receivables less a discount. The sale discount is recorded within "Miscellaneous, net" in the Consolidated Statements of Comprehensive Income in the period of the sale.

The Company sold \$919.3 million, \$712.9 million and \$418.0 million of trade accounts receivable under these programs, or their predecessors, during fiscal years 2019, 2018 and 2017, respectively, in exchange for cash proceeds of \$913.6 million, \$708.6 million and \$415.8 million, respectively.

**15. Revenue from Contracts with Customers**

*Impact of Adopting Topic 606*

The Company adopted Topic 606 at the beginning of fiscal 2019 using the modified retrospective method. The new standard resulted in a change to the timing of revenue recognition for a significant portion of the Company's revenue, whereby revenue is recognized over time, as products are produced, as opposed to at a point in time based upon shipping terms. As a result of the adoption of Topic 606, the following adjustments were made to the opening balances of the Company's Consolidated Balance Sheets (in thousands):

|   | Balance at September 29, 2018 |           | Impacts due to adoption of Topic 606 |          | Balance at September 30, 2018 |
|---|-------------------------------|-----------|--------------------------------------|----------|-------------------------------|
| <b>ASSETS</b>                               |                               |           |                                      |          |                               |
| Contract assets                             | \$                            | —         | \$                                   | 76,417   | \$ 76,417                     |
| Inventories                                 |                               | 794,346   |                                      | (68,959) | 725,387                       |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b> |                               |           |                                      |          |                               |
| Other accrued liabilities                   | \$                            | 68,163    | \$                                   | (357)    | \$ 67,806                     |
| Retained earnings                           |                               | 1,062,246 |                                      | 7,815    | 1,070,061                     |

The cumulative effect of applying the new guidance in Topic 606 resulted in the Company increasing its fiscal 2019 opening Retained earnings balance by \$7.8 million due to certain customer contracts requiring revenue recognition over time. Contract assets in the amount of \$76.4 million were recognized due to the recognition of revenue on an over time basis for some customers rather than at a specific point in time. Inventory declined \$69.0 million primarily due to earlier recognition of costs related to the contracts for which revenue was recognized on an over time basis. The decline in other accrued liabilities is primarily due to the reclassification of deferred revenue to contract assets for prepayments associated with revenue recognized over time, partially offset by an increase in taxes payable associated with the increase in revenue recognized over time.

The effects of the adoption on the Company's Consolidated Financial Statements for the fiscal year ended September 28, 2019 was as follows (in thousands):

|                            | Fiscal Year Ended                 |                              |  |
|----------------------------|-----------------------------------|------------------------------|--|
|                            | September 28, 2019<br>As Reported | Adjustments due to Topic 606 | September 28, 2019<br>As Adjusted - Without<br>Adoption of Topic 606 |
| Net sales                  | \$ 3,164,434                      | \$ 14,880                    | \$ 3,149,554   |
| Cost of sales              | 2,872,596                         | 12,934                       | 2,859,662  |
| Gross profit               | 291,838                           | 1,946                        | 289,892  |
| Operating income           | 142,055                           | 1,946                        | 140,109  |
| Income before income taxes | 125,955                           | 1,946                        | 124,009  |
| Income tax expense         | 17,339                            | 440                          | 16,899   |
| Net income                 | \$ 108,616                        | \$ 1,506                     | \$ 107,110   |

|   | September 28, 2019 |           | September 28, 2019                          |          |    |           |
|---|--------------------|-----------|---|----------|----|-----------|
|   | As Reported        |           | As Adjusted - Without Adoption of Topic 606 |          |    |           |
| <b>ASSETS</b>                               |                    |           |   |          |    |           |
| Contract assets                             | \$                 | 90,841    | \$  | 90,841   | \$ | —         |
| Inventories                                 |                    | 700,938   |   | (81,895) |    | 782,833   |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b> |                    |           |   |          |    |           |
| Other accrued liabilities                   | \$                 | 106,461   | \$  | (375)    | \$ | 106,836   |
| Retained earnings                           |                    | 1,178,677 |   | 9,321    |    | 1,169,356 |

#### Significant Judgments

Topic 606 resulted in a change to the timing of revenue recognition for a significant portion of the Company's revenue, whereby revenue is now recognized over time as products are produced, as opposed to at a point in time based upon shipping terms. Since adopting the standard, revenue is recognized over time for arrangements with customers for which: (i) the Company's performance does not create an asset with an alternative use to the Company, and (ii) the Company has an enforceable right to payment, including reasonable profit margin, for performance completed to date. Revenue recognized over time is estimated based on costs incurred to date plus a reasonable profit margin. If either of the two conditions noted above are not met to recognize revenue over time, revenue is recognized following the transfer of control of such products to the customer, which typically occurs upon shipment or delivery depending on the terms of the underlying arrangement.

The Company recognizes revenue when a contract exists and when, or as, it satisfies a performance obligation by transferring control of a product or service to a customer. Contracts are accounted for when they have approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of consideration is probable. A performance obligation is a promise in a contract to transfer a distinct good or service to the customer.

The Company generally enters into a master services arrangement that establishes the framework under which business will be conducted. These arrangements represent the master terms and conditions of the Company's services that apply to individual orders, but they do not commit the customer to work with, or to continue to work with, the Company nor do they obligate the customer to any specific volume or pricing of purchases. Moreover, these terms can be amended in appropriate situations. Customer purchase orders are received for specific quantities with predominantly fixed pricing and delivery requirements. Thus, for the majority of our contracts, there is no guarantee of any revenue to the Company until a customer submits a purchase order. As a result, the Company generally considers its arrangement with a customer to be the combination of the master services arrangement and the purchase order. Most of the Company's arrangements with customers create a single performance obligation as the promise to transfer the individual manufactured product or service is capable of being distinct.

The Company's performance obligations are satisfied over time as work progresses or at a point in time. A performance obligation is satisfied over time if the Company has an enforceable right to payment, including a reasonable profit margin. Determining if an enforceable right to payment includes a reasonable profit margin requires judgment and is assessed on a contract by contract basis.

Generally, there are no subjective customer acceptance requirements or further obligations related to goods or services provided; if such requirements or obligations exist, then a sale is recognized at the time when such requirements are completed and such obligations are fulfilled.

The Company does not allow for a general right of return. Net sales include amounts billed to customers for shipping and handling and out-of-pocket expenses. The corresponding shipping and handling costs and out-of-pocket expenses are included in cost of sales. Taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction, that are collected by the Company from a customer, are excluded from net sales.

#### Practical Expedients

The Company applied the following practical expedients during the adoption of Topic 606:

- The Company elected not to disclose information about remaining performance obligations as its performance obligations generally have expected durations of one year or less.
- The Company will account for certain shipping and handling as activities to fulfill the promise to transfer the good, instead of a promised service to its customer.

- The Company elected not to adjust the promised amount of consideration for the effects of a significant financing component as the Company expects, at contract inception, that the period between when the entity transfers a promised good or service to a customer and when the customer pays for that good or service will generally be one year or less.

*Contract Costs*

For contracts requiring over time revenue recognition, the selection of the method to measure progress towards completion requires judgment and is based on the nature of the products or services to be provided. The Company uses a cost-based input measurement of progress because it best depicts the transfer of assets to the customer, which occurs as costs are incurred during the manufacturing process or as services are rendered. Under the cost-based measure of progress, the extent of progress towards completion is measured based on the costs incurred to date.

There were no other costs to obtain or fulfill customer contracts.

*Disaggregated Revenue*

The table below includes the Company's revenue for the fiscal year ended September 28, 2019 disaggregated by geographic reportable segment and market sector (in thousands):

|                          | Fiscal Year Ended September 28, 2019 |                     |                   |                     |
|--------------------------|--------------------------------------|---------------------|-------------------|---------------------|
|                          | Reportable Segment:                  |                     |                   |                     |
|                          | AMER                                 | APAC                | EMEA              | Total               |
| <b>Market Sector:</b>    |                                      |                     |                   |                     |
| Healthcare/Life Sciences | \$ 488,851                           | \$ 602,922          | \$ 128,225        | \$ 1,219,998        |
| Industrial/Commercial    | 359,381                              | 534,971             | 86,868            | 981,220             |
| Aerospace/Defense        | 317,558                              | 186,486             | 84,556            | 588,600             |
| Communications           | 256,523                              | 113,329             | 4,764             | 374,616             |
| External revenue         | 1,422,313                            | 1,437,708           | 304,413           | 3,164,434           |
| Inter-segment sales      | 6,995                                | 119,497             | 5,520             | 132,012             |
| Segment revenue          | <u>\$ 1,429,308</u>                  | <u>\$ 1,557,205</u> | <u>\$ 309,933</u> | <u>\$ 3,296,446</u> |

For the fiscal year ended September 28, 2019, approximately 90% of the Company's revenue was recognized as products and services were transferred over time, respectively.

*Contract Balances*

The timing of revenue recognition, billings and cash collections results in billed accounts receivable, contract assets, and deferred revenue on the Company's accompanying Consolidated Balance Sheets.

**Contract Assets:** For performance obligations satisfied at a point in time, billing occurs subsequent to revenue recognition, at which point the customer has been billed and the resulting asset is recorded within accounts receivable. For performance obligations satisfied over time as work progresses, the Company has an unconditional right to payment, which results in the recognition of contract assets. The following table summarizes the activity in the Company's contract assets during the fiscal year ended September 28, 2019 (in thousands):

|  | Contract Assets  |
|--|------------------|
| Beginning balance, September 29, 2018              | \$ —             |
| Cumulative effect adjustment at September 29, 2018 | 76,417           |
| Revenue recognized                                 | 2,859,182        |
| Amounts collected or invoiced                      | (2,844,758)      |
| Ending balance, September 28, 2019                 | <u>\$ 90,841</u> |

**Deferred Revenue:** Deferred revenue is recorded when consideration is received from a customer prior to transferring goods or services to the customer under the terms of the contract, which is included in other accrued liabilities. As of September 28, 2019 and September 29, 2018 the balance of prepayments from customers that remained in other accrued liabilities was \$67.9 million and \$35.9 million, respectively. The advance payment is not considered a significant financing component because it is used to meet working capital demands that can be higher in the early stages of a contract, offset obsolete and excess inventory risks and to protect the company from the other party failing to adequately complete some or all of its obligations under the contract. Deferred revenue is recognized into revenue when all revenue recognition criteria are met. For performance obligations satisfied over time, recognition will occur as work progresses; otherwise deferred revenue will be recognized based upon shipping terms.

## **16. Acquisition**

On July 27, 2018, the Company purchased the assets of one of the business lines of Cascade Controls, Inc. ("Cascade"), a new product introduction company in Portland, Oregon, for \$12.4 million in cash, subject to certain customary post-closing adjustments. In the three months ended December 29, 2018, the Company received a \$1.2 million purchase price adjustment as a result of a post-closing adjustment. Plexus acquired substantially all of the inventory, equipment and other assets of the business line, hired a majority of its employees and sub-leased one of Cascade's facilities. This transaction has been accounted for as a business combination.

The acquisition resulted in a \$12.4 million cash outflow in fiscal 2018 and a \$1.2 million cash inflow in fiscal 2019 included in "Business acquisition" in the accompanying Consolidated Statements of Cash Flows. Additionally, \$8.2 million and \$6.9 million of intangible assets related to customer relationships is included in non-current "Other" assets in the accompanying Consolidated Balance Sheet for fiscal 2018 and 2019, respectively. The intangible assets are amortized on a straight-line basis and result in amortization expense for fiscal 2019, 2020, 2021, 2022 and 2023 of approximately \$1.2 million per year. There were no other material impacts to the Company's Consolidated Financial Statements as a result of the acquisition.

**17. Quarterly Financial Data (Unaudited)**

The following is summarized quarterly financial data for fiscal 2019 and 2018 (in thousands, except per share amounts):

| 2019                                | First<br>Quarter | Second<br>Quarter | Third<br>Quarter | Fourth<br>Quarter | Total        |
|-------------------------------------|------------------|-------------------|------------------|-------------------|--------------|
| Net sales                           | \$ 765,544       | \$ 789,051        | \$ 799,644       | \$ 810,195        | \$ 3,164,434 |
| Gross profit                        | 72,383           | 70,636            | 71,030           | 77,789            | 291,838      |
| Net income <sup>(2,3,4)</sup>       | 22,226           | 24,758            | 24,801           | 36,831            | 108,616      |
| Earnings per share <sup>(1)</sup> : |                  |                   |                  |                   |              |
| Basic                               | \$ 0.71          | \$ 0.81           | \$ 0.83          | \$ 1.26           | \$ 3.59      |
| Diluted <sup>(7)</sup>              | \$ 0.69          | \$ 0.79           | \$ 0.81          | \$ 1.23           | \$ 3.50      |

| 2018                                | First<br>Quarter | Second<br>Quarter | Third<br>Quarter | Fourth<br>Quarter | Total        |
|-------------------------------------|------------------|-------------------|------------------|-------------------|--------------|
| Net sales                           | \$ 677,294       | \$ 698,651        | \$ 726,385       | \$ 771,178        | \$ 2,873,508 |
| Gross profit <sup>(5)</sup>         | 63,523           | 52,952            | 67,821           | 73,304            | 257,600      |
| Net (loss) income <sup>(5, 6)</sup> | (98,493)         | 12,290            | 26,501           | 72,742            | 13,040       |
| Earnings per share <sup>(1)</sup> : |                  |                   |                  |                   |              |
| Basic                               | \$ (2.93)        | \$ 0.37           | \$ 0.81          | \$ 2.27           | \$ 0.40      |
| Diluted <sup>(7)</sup>              | \$ (2.93)        | \$ 0.36           | \$ 0.79          | \$ 2.20           | \$ 0.38      |

(1) The annual total amounts may not equal the sum of the quarterly amounts due to rounding. Earnings per share is computed independently for each quarter.

(2) The first quarter of fiscal 2019 results included \$7.0 million of tax expense as a result of new regulations issued in November 2018 under Tax Reform. These regulations impacted the treatment of foreign taxes paid.

(3) The fourth quarter of fiscal 2019 results included restructuring costs of \$1.7 million, \$1.5 million net of taxes.

(4) The fourth quarter of fiscal 2019 results included the permanent reinvestment assertion of \$10.5 million of certain historical undistributed earnings of two foreign subsidiaries.

(5) The second quarter of fiscal 2018 results included the \$13.5 million one-time employee bonus.

(6) The first quarter of fiscal 2018 results included \$124.5 million of tax expense as a result of the enactment of Tax Reform. The fourth quarter of fiscal 2018 results included \$38.6 million of non-recurring tax benefits as well as a \$3.6 million benefit due to the reversal of a valuation allowance on U.S. deferred tax assets. These benefits were partially offset by \$1.1 million of tax expense for other special tax items. Refer to Note 6, "Income Taxes," for further details on Tax Reform.

(7) The first quarter of fiscal 2019 included \$0.23 per share of tax expense as a result of U.S. Tax Reform. The fourth quarter of fiscal 2019 included \$0.05 per share of expense related to restructuring costs and \$0.35 per share tax benefit resulting from the permanent reinvestment assertion of certain historical undistributed earnings of two foreign subsidiaries.

The first quarter of fiscal 2018 included \$3.59 per share of tax expense as a result of the enactment of U.S. Tax Reform and \$0.09 per share that resulted from 1.1 million of weighted average potentially-dilutive shares that were excluded from the diluted shares calculation due to the net loss position. The second quarter of fiscal 2018 included \$0.38 per share of expense related to the one-time employee bonus. The fourth quarter of fiscal 2018 included \$1.24 per share of special tax benefits.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**ITEM 9A. CONTROLS AND PROCEDURES**

**Disclosure Controls and Procedures**

The Company maintains disclosure controls and procedures designed to ensure that the information the Company must disclose in its filings with the Securities and Exchange Commission ("SEC") is recorded, processed, summarized and reported on a timely basis. The Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have reviewed and evaluated, with the participation of the Company's management, the Company's disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act") as of the end of the period covered by this report. Based on such evaluation, the CEO and CFO have concluded that, as of September 28, 2019, the Company's disclosure controls and procedures are effective, at the reasonable assurance level, (a) in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the Company in the reports the Company files or submits under the Exchange Act, and (b) in assuring that information is accumulated and communicated to the Company's management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

**Management's Annual Report on Internal Control Over Financial Reporting**

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Management of the Company, including its CEO and CFO, has assessed the effectiveness of its internal control over financial reporting as of September 28, 2019, based on the criteria established in "Internal Control - Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") (2013). Based on its assessment and those criteria, management has reached the conclusion that the Company's internal control over financial reporting was effective.

The independent registered public accounting firm of PricewaterhouseCoopers LLP has audited the Company's internal control over financial reporting as of September 28, 2019, as stated in its report included herein.

**Changes in Internal Control Over Financial Reporting**

There have been no changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the Company's most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**Limitations on the Effectiveness of Controls**

Our management, including our CEO and CFO, does not expect that our disclosure controls and internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple errors or mistakes. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, a control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. Notwithstanding the foregoing limitations on the effectiveness of controls, we have nonetheless reached the conclusion that the Company's disclosure controls and procedures and internal control over financial reporting are effective.

**ITEM 9B. OTHER INFORMATION**

None.



### PART III

#### ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information in response to this item is incorporated herein by reference to "Election of Directors" and "Corporate Governance" in the Company's Proxy Statement for its 2020 Annual Meeting of Shareholders ("2020 Proxy Statement").

Our Code of Conduct and Business Ethics is posted on our website at [www.plexus.com](http://www.plexus.com). You may access the Code of Conduct and Business Ethics by following the links under "Investors" and then "Corporate Governance" at our website. Plexus' Code of Conduct and Business Ethics applies to all members of the board of directors, officers and employees; and includes provisions related to accounting and financial matters that apply to the Principal Executive Officer, Principal Financial Officer, Principal Accounting Officer and Controller.

##### Information about our Executive Officers

The following table sets forth our executive officers, their ages and the positions currently held by each person:

| Name                | Age | Position  |
|---------------------|-----|---|
| Todd P. Kelsey      | 54  | President and Chief Executive Officer   |
| Steven J. Frisch    | 53  | Executive Vice President and Chief Operating Officer                                  |
| Patrick J. Jermain  | 53  | Executive Vice President and Chief Financial Officer                                  |
| Angelo M. Ninivaggi | 52  | Executive Vice President, Chief Administrative Officer, General Counsel and Secretary |
| Ronnie Darroch      | 54  | Executive Vice President and Regional President – EMEA                                |
| Yong Jin Lim        | 59  | Regional President – APAC   |
| Scott Theune        | 55  | Regional President – AMER   |

*Todd P. Kelsey* joined Plexus in 1994 and has served as President and Chief Executive Officer since 2016; prior thereto, he served as Executive Vice President and Chief Operating Officer since 2013. Previously, Mr. Kelsey served as Executive Vice President – Global Customer Services since 2011 and as Senior Vice President prior thereto.

*Steven J. Frisch* joined Plexus in 1990 and has served as Executive Vice President and Chief Operating Officer since 2016. Prior thereto, he served as Executive Vice President and Chief Customer Officer since 2014. Previously, Mr. Frisch served as Executive Vice President – Global Customer Services from 2013 to 2014. Mr. Frisch was Regional President – Plexus EMEA from 2010 to 2013. Mr. Frisch also served as Senior Vice President – Global Engineering Solutions from 2007 to 2013.

*Patrick J. Jermain* joined Plexus in 2010 and has served as Chief Financial Officer since 2014; he was named a Vice President in 2014, Senior Vice President in 2015 and Executive Vice President in 2019. Previously, Mr. Jermain served as Treasurer and Vice President of Finance since 2013 and as Corporate Controller since 2010. Prior to joining Plexus, Mr. Jermain served in various positions at Appvion, Inc., formerly Appleton Papers, Inc.

*Angelo M. Ninivaggi* joined Plexus in 2002 and has served as Chief Administrative Officer since 2013. Mr. Ninivaggi has also served as Vice President, General Counsel and Secretary since 2006, was named a Senior Vice President in 2011 and Executive Vice President in 2019. Mr. Ninivaggi also served as Corporate Compliance Officer from 2007 to 2013.

*Ronnie Darroch* joined Plexus in 2012 and has served as Executive Vice President and Regional President – EMEA since May 2019. Previously, Mr. Darroch served as Regional President – AMER from 2016 to 2019, Senior Vice President – Global Manufacturing Solutions from 2014 to 2019, was named an Executive Vice President in 2016, Regional President – EMEA from 2013 to 2014 and Vice President of Operations – EMEA prior thereto. Prior to joining Plexus, Mr. Darroch served in various positions at Jabil Circuit, Inc., an EMS provider.

*Yong Jin Lim* joined Plexus in 2002 and has served as Regional President – APAC since 2007.

*Scott Theune* joined Plexus in 1993 and has served as Regional President – AMER since May 2019. Previously, Mr. Theune served as Senior Vice President of Global Supply Chain from 2016 to 2019, Vice President of Supply Chain from 2005 to 2016, and General Manager and Global Director of Manufacturing Process and Technology prior thereto.

**ITEM 11. EXECUTIVE COMPENSATION**

Incorporated herein by reference to "Corporate Governance – Board Committees – Compensation and Leadership Development Committee," "Corporate Governance – Directors' Compensation," "Compensation Discussion and Analysis," "Executive Compensation" and "Compensation Committee Report" in the 2020 Proxy Statement.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

Incorporated herein by reference to "Security Ownership of Certain Beneficial Owners and Management."

**Equity Compensation Plan Information**

The following table chart gives aggregate information regarding grants under all Plexus equity compensation plans through September 28, 2019:

| Plan category  | Number of securities to be issued upon exercise of outstanding options, warrants and rights (1) | Weighted-average exercise price of outstanding options, warrants and rights (2) | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in 1 <sup>st</sup> column) |
|--|---|---|---|
| Equity compensation plans approved by security holders     | 1,426,441   | \$ 38.28  | \$ 1,878,036  |
| Equity compensation plans not approved by security holders | —   | n/a   | —   |
| <b>Total</b>   | <b>1,426,441</b>  | <b>38.28</b>  | <b>1,878,036</b>  |

(1) Represents options, stock-settled SARs, PSUs and RSUs granted under the 2016 Omnibus Incentive Plan and the 2008 Long-Term Incentive Plan, both of which were approved by shareholders. No further awards may be made under the 2008 Long-Term Incentive Plan.

(2) The weighted average exercise prices exclude PSUs and RSUs.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

Incorporated herein by reference to "Corporate Governance – Director Independence" and "Certain Transactions" in the 2020 Proxy Statement.

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

Incorporated herein by reference to the subheading "Auditors - Fees and Services" in the 2020 Proxy Statement.

**PART IV**

**ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

- (a) Documents filed

Financial Statements and Financial Statement Schedule. See the list of Financial Statements and Financial Statement Schedule in Item 8.

- (b) Exhibits. The list of exhibits is included below:

| <b>Exhibit No.</b> | <b>Exhibit</b>   |
|--------------------|--|
| 3(i)               | <a href="#">Restated Articles of Incorporation of Plexus Corp.</a>   |
| 3(ii)              | <a href="#">Amended and Restated Bylaws of Plexus Corp., as amended through March 13, 2018</a>   |
| 4.1                | <a href="#">Restated Articles of Incorporation of Plexus Corp.</a>   |
| 4.2                | <a href="#">Amended and Restated Bylaws of Plexus Corp., as amended through March 13, 2018</a>   |
| 4.3                | <a href="#">Description of Common Stock</a>  |
| 10.1               | <a href="#">Credit Agreement, dated as of May 15, 2019, among Plexus Corp., the banks, financial institutions and other institutional lenders listed on the signature pages thereto, JPMorgan Chase Bank, N.A., as administrative agent, U.S. Bank National Association, as syndication agent, PNC Bank, National Association, Bank of America, N.A., MUFG Bank, Ltd., HSBC Bank USA, N.A., Bank of the West and Wells Fargo Bank, National Association, as co-documentation agents, and JPMorgan Chase Bank, N.A. and U.S. Bank National Association, as joint lead arrangers and joint book runners (including the related subsidiary guaranty).</a> |
| 10.2 (a)           | <a href="#">Note Purchase Agreement, dated as of June 15, 2018, between Plexus Corp. and the Purchasers named therein relating to an aggregate of \$150,000,000 in principal amount of 4.05% Series A Senior Notes, due June 15, 2025, and 4.22% Series B Senior Notes, due June 15, 2028.</a>   |
| 10.2 (b)           | <a href="#">First Amendment, dated as of June 25, 2019, to the Note Purchase Agreement, dated as of June 15, 2018, between Plexus Corp. and the Noteholders named therein relating to an aggregate of \$150,000,000 in principal amount of 4.05% Series A Senior Notes, due June 15, 2025, and 4.22% Series B Senior Notes, due June 15, 2028.</a>   |
| 10.3 (a)           | <a href="#">Master Accounts Receivable Purchase Agreement between Plexus Corp. and Plexus Manufacturing Sdn. Bhd., and each additional seller party thereto from time to time as the Sellers, Plexus Corp., as Seller Representative, and The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch, as the Purchaser, dated as of October 4, 2016.</a>  |
| 10.3 (b)           | <a href="#">Amended and Restated Master Accounts Receivable Purchase Agreement between Plexus Corp. and Plexus Manufacturing Sdn. Bhd., Plexus Intl. Sales &amp; Logistics, LLC, and each additional seller party thereto from time to time as the Sellers, Plexus Corp., as Seller Representative, and The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch, as the Purchaser, dated as of December 14, 2016.</a>  |
| 10.3 (c)           | <a href="#">Amendment No. 3 to Amended and Restated Master Accounts Receivable Purchase Agreement between Plexus Corp. and Plexus Manufacturing Sdn. Bhd., Plexus Intl. Sales &amp; Logistics, LLC, Plexus Services Ro SRL, Plexus Corp. (UK) Limited and each additional seller party thereto from time to time as the Sellers, Plexus Corp., as Seller Representative, and The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch, as the Purchaser, dated as of March 28, 2017.</a>  |
| 10.3 (d)           | <a href="#">Amendment No. 4 to Amended and Restated Master Accounts Receivable Purchase Agreement between Plexus Corp. and Plexus Manufacturing Sdn. Bhd., Plexus Intl. Sales &amp; Logistics, LLC, Plexus Services Ro SRL, Plexus Corp. (UK) Limited and each additional seller party thereto from time to time as the Sellers, Plexus Corp., as Seller Representative, and The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch, as the Purchaser, dated as of September 11, 2017.</a>  |

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- 10.3 (e) [Amendment No. 5 to Amended and Restated Master Accounts Receivable Purchase Agreement between Plexus Corp. and Plexus Manufacturing Sdn. Bhd., Plexus Intl. Sales & Logistics, LLC, Plexus Services Ro SRL, Plexus Corp. \(UK\) Limited and each additional seller party thereto from time to time as the Sellers, Plexus Corp., as Seller Representative, and The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch, as the Purchaser, dated as of October 19, 2017.](#)
- 10.3 (f) [Amendment No. 6 to Amended and Restated Master Accounts Receivable Purchase Agreement between Plexus Corp. and Plexus Manufacturing Sdn. Bhd., Plexus Intl. Sales & Logistics, LLC, Plexus Services Ro SRL, Plexus Corp. \(UK\) Limited and each additional seller party thereto from time to time as the Sellers, Plexus Corp., as Seller Representative, and MUFG Bank Ltd. \(f/k/a The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch\), as the Purchaser, dated as of May 4, 2018.](#)
- 10.3 (g) [Amendment No. 7 to Amended and Restated Master Accounts Receivable Purchase Agreement between Plexus Corp. and Plexus Manufacturing Sdn. Bhd., Plexus Intl. Sales & Logistics, LLC, Plexus Services Ro SRL, Plexus Corp. \(UK\) Limited and each additional seller party thereto from time to time as the Sellers, Plexus Corp., as Seller Representative, and MUFG Bank Ltd. \(f/k/a The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch\), as the Purchaser, dated as of September 19, 2018.](#)
- 10.3 (h) [Amendment No. 8 to Amended and Restated Master Accounts Receivable Purchase Agreement between Plexus Corp. and Plexus Manufacturing Sdn. Bhd., Plexus Intl. Sales & Logistics, LLC, Plexus Services Ro SRL, Plexus Corp. \(UK\) Limited and each additional seller party thereto from time to time as the Sellers, Plexus Corp., as Seller Representative, and MUFG Bank Ltd. \(f/k/a The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch\), as the Purchaser, dated as of March 20, 2019.](#)
- 10.3 (i) [Amendment No.9 to Amended and Restated Master Accounts Receivable Purchase Agreement between Plexus Corp. and Plexus Manufacturing Sdn. Bhd., Plexus Intl. Sales & Logistics, LLC, Plexus Services Ro SRL, Plexus Corp. \(UK\) Limited and each additional seller party thereto from time to time as the Sellers, Plexus Corp., as Seller Representative, and MUFG Bank Ltd. \(f/k/a The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch\), as the Purchaser, dated as of June 21, 2019.](#)
- 10.4 [Retirement and Transition Agreement, dated August 17, 2016, by and between Plexus Corp. and Dean A. Foate\\*](#)
- 10.5 [Employment Agreement, dated August 17, 2016, by and between Plexus Corp. and Todd P. Kelsey\\*](#)
- 10.6 [Form of Change of Control Agreement with executive officers\\*](#)
- 10.7 [Summary of Directors' Compensation \(11/18\)\\*](#)
- 10.8 (a) [Plexus Corp. Executive Deferred Compensation Plan\\*](#)
- 10.8 (b) [Plexus Corp Executive Deferred Compensation Plan Trust dated April 1, 2003 between Plexus Corp. and Bankers Trust Company\\*](#)
- 10.9 [Plexus Corp. Non-employee Directors Deferred Compensation Plan\\*](#)
- 10.10 (a) [Amended and Restated Plexus Corp. 2016 Omnibus Incentive Plan\\*](#)
- 10.10 (b) Forms of award agreements thereunder\*
  - [\(i\) Form of Stock Option Agreement](#)
  - [\(ii\) Form of Restricted Stock Unit Award](#)
  - [\(iii\) Form of Performance Stock Unit Agreement](#)
  - [\(iv\) Form of Stock Appreciation Rights Agreement](#)
  - [\(v\) Form of Restricted Stock Unit Award Agreement for Directors](#)
  - [\(vi\) Form of Plexus Corp. Variable Incentive Compensation Plan - Plexus Leadership Team](#)

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|           |   |
|-----------|---|
| 10.11 (a) | <a href="#">Amended and Restated Plexus Corp. 2008 Long-Term Incentive Plan* (superseded except as to outstanding awards)</a>   |
| 10.11(b)  | Forms of award agreements thereunder*   |
|           | <a href="#">(i) Form of Stock Option Agreement</a>  |
|           | <a href="#">(ii) Form of Restricted Stock Unit Award</a>  |
|           | <a href="#">(iii) Form of Stock Appreciation Rights Agreement</a>   |
| 21        | <a href="#">List of Subsidiaries</a>  |
| 23        | <a href="#">Consent of PricewaterhouseCoopers LLP</a>   |
| 24        | <a href="#">Powers of Attorney (incorporated by reference to the signature page of this Annual Report on Form 10-K).</a>  |
| 31.1      | <a href="#">Certification of Chief Executive Officer pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.</a>  |
| 31.2      | <a href="#">Certification of Chief Financial Officer pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.</a>  |
| 32.1      | <a href="#">Certification of the CEO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>   |
| 32.2      | <a href="#">Certification of the CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>   |
| 99.1      | <a href="#">Reconciliation of ROIC to GAAP and Economic Return Financial Statements</a>   |
| 101       | The following materials from Plexus Corp.'s Annual Report on Form 10-K for the fiscal year ended September 28, 2019, formatted in Inline Extensible Business Reporting Language ("XBRL"): (i) the Consolidated Statements of Comprehensive Income, (ii) the Consolidated Balance Sheets, (iii) the Consolidated Statements of Shareholders' Equity, (iv) the Consolidated Statements of Cash Flows, and (v) Notes to Consolidated Financial Statements. |
| 101.INS   | Inline XBRL Instance Document (the instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document)   |
| 101.SCH   | Inline XBRL Taxonomy Extension Schema Document  |
| 101.CAL   | Inline XBRL Taxonomy Extension Calculation Linkbase Document  |
| 101.LAB   | Inline XBRL Taxonomy Extension Label Linkbase Document  |
| 101.PRE   | Inline XBRL Taxonomy Extension Presentation Linkbase Document   |
| 101.DEF   | Inline XBRL Taxonomy Extension Definition Linkbase Document   |
| 104       | The cover page from the Company's Annual Report on Form 10-K for the fiscal year ended September 28, 2019, formatted in Inline XBRL and contained in Exhibit 101.   |
| *         | Designates management compensatory plans or agreements.   |

**ITEM 16. FORM 10-K SUMMARY**

None.

**Plexus Corp. and Subsidiaries****Schedule II – Valuation and Qualifying Accounts**

For the fiscal years ended September 28, 2019, September 29, 2018 and September 30, 2017 (in thousands):

| Descriptions  | Balance at beginning of period | Additions charged to costs and expenses | Additions charged to other accounts | Deductions  | Balance at end of period |
|---|--------------------------------|---|-------------------------------------|-------------|--------------------------|
| <b>Fiscal Year 2019:</b>  |                                |   |                                     |             |                          |
| Allowance for losses on accounts receivable (deducted from the asset to which it relates)       | \$ 885                         | \$ 1,189                                | \$ —                                | \$ (537)    | \$ 1,537                 |
| Valuation allowance on deferred income tax assets (deducted from the asset to which it relates) | \$ 28,369                      | \$ 2,213                                | \$ —                                | \$ (1,412)  | \$ 29,170                |
| <b>Fiscal Year 2018:</b>  |                                |   |                                     |             |                          |
| Allowance for losses on accounts receivable (deducted from the asset to which it relates)       | \$ 980                         | \$ 380                                  | \$ —                                | \$ (475)    | \$ 885                   |
| Valuation allowance on deferred income tax assets (deducted from the asset to which it relates) | \$ 61,668                      | \$ 1,107                                | \$ —                                | \$ (34,406) | \$ 28,369                |
| <b>Fiscal Year 2017:</b>  |                                |   |                                     |             |                          |
| Allowance for losses on accounts receivable (deducted from the asset to which it relates)       | \$ 2,368                       | \$ 566                                  | \$ —                                | \$ (1,954)  | \$ 980                   |
| Valuation allowance on deferred income tax assets (deducted from the asset to which it relates) | \$ 41,002                      | \$ 20,678                               | \$ —                                | \$ (12)     | \$ 61,668                |

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Plexus Corp.  
Registrant

Date: November 15, 2019

/s/ Todd P. Kelsey  
Todd P. Kelsey  
President and Chief Executive Officer

**POWER OF ATTORNEY**

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Todd P. Kelsey, Patrick J. Jermain and Angelo M. Ninivaggi, and each of them, his or her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this report, and to file the same with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, and any other regulatory authority, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or their substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirement of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the date indicated.\*

SIGNATURE AND TITLE

/s/ Todd P. Kelsey  
Todd P. Kelsey, President and Chief Executive Officer (Principal Executive Officer) and Director

/s/ Joann M. Eisenhart  
Joann M. Eisenhart, Director

/s/ Patrick J. Jermain  
Patrick J. Jermain, Executive Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)

/s/ Rainer Jueckstock  
Rainer Jueckstock, Director

/s/ Dean A. Foate  
Dean A. Foate, Chairman

/s/ Peter Kelly  
Peter Kelly, Director

/s/ Ralf R. Böer  
Ralf R. Böer, Director

/s/ Karen M. Rapp  
Karen M. Rapp, Director

/s/ Stephen P. Cortinovis  
Stephen P. Cortinovis, Director

/s/ Paul A. Rooke  
Paul A. Rooke, Director

/s/ David J. Drury  
David J. Drury, Director

/s/ Michael V. Schrock  
Michael V. Schrock, Director

\*Each of the above signatures is affixed as of November 15, 2019.



## DESCRIPTION OF COMMON STOCK

The following summary highlights selected information about the common stock of Plexus Corp. (“Plexus,” the “Company,” “we,” “us,” or “our”). This summary does not purport to be exhaustive and is qualified in its entirety by reference to applicable Wisconsin law, as well as to our Articles and our Amended and Restated Bylaws.

The Plexus Restated Articles of Incorporation, as amended (the “Articles”), authorize Plexus to issue 200,000,000 shares of common stock and 5,000,000 shares of preferred stock, \$.01 par value. The preferred stock may be issued in such series, and with such designations, as the Board of Directors may specify at the time of issuance. The Articles currently designate 2,000,000 of the preferred shares as Series B Junior Participating Preferred Stock. However, there are not any shares of Series B Junior Participating Preferred Stock outstanding, nor are any rights to acquire such shares outstanding; all prior powers, preferences, special rights, terms of and rights to acquire such shares have expired.

The holders of Plexus common stock are entitled to one vote for each share held of record on each matter submitted to a vote of shareholders. Shareholders have no cumulative voting rights, which means that the holders of shares entitled to exercise more than 50% of the voting rights are able to elect all of the directors. The Articles do not provide for classification of the Board of Directors.

Subject to any prior rights of holders of preferred stock, dividends may be paid to holders of common stock when, as and if declared by the Board of Directors out of funds legally available therefor, subject to any contractual restrictions on the payment of dividends. If Plexus is liquidated, dissolved or wound up, the holders of common stock will be entitled to receive their pro rata share of the assets of Plexus remaining after payment or provision for payment of its debts and other liabilities and the amount of any preferred stock liquidation preference.

All of our issued and outstanding shares are fully paid and nonassessable.

The holders of common stock are not entitled to any preemptive, subscription, redemption or conversion rights.

The transfer agent and registrar of the Company’s common stock is AST Financial.

The Company’s common stock trades on the Nasdaq Stock Market in the Nasdaq Global Select Market tier (symbol: PLXS).

### **Certain Statutory Provisions**

The Wisconsin Business Corporation Law (the “WBCL”), under which Plexus is incorporated, contains certain provisions that may be important when considering the rights of

holders of our capital stock. The description set forth below is a summary only. For complete information, we encourage you to review the applicable provisions of the WBCL.

*Business Combination Statute.* Sections 180.1140 to 180.1144 of the WBCL regulate a broad range of business combinations between a "resident domestic corporation" and an "interested shareholder." A business combination is defined to include any of the following transactions:

- a merger or share exchange;
- a sale, lease, exchange, mortgage, pledge, transfer or other disposition of assets equal to 5% or more of the aggregate market value of the stock or consolidated assets of the resident domestic corporation or 10% of its consolidated earning power or income;
- the issuance or transfer of stock or rights to purchase stock with a market value equal to 5% or more of the outstanding stock of the resident domestic corporation;
- the adoption of a plan of liquidation or dissolution; and
- certain other transactions involving an interested shareholder.

A "resident domestic corporation" is defined to mean a Wisconsin corporation that has a class of voting stock that is registered or traded on a national securities exchange or that is registered under Section 12(g) of the Securities Exchange Act of 1934 and that, as of the relevant date, satisfies any of the following:

- its principal offices are located in Wisconsin;
- it has significant business operations located in Wisconsin;
- more than 10% of the holders of record of its shares are residents of Wisconsin; or
- more than 10% of its shares are held of record by residents of Wisconsin.

Plexus is a resident domestic corporation for purposes of these statutory provisions.

An interested shareholder is defined to mean a person who beneficially owns, directly or indirectly, 10% of the voting power of the outstanding voting stock of a resident domestic corporation or who is an affiliate or associate of the resident domestic corporation and beneficially owned 10% of the voting power of its then outstanding voting stock within the last three years.

Under this law, we cannot engage in a business combination with an interested shareholder for a period of three years following the date such person becomes an interested shareholder, unless the board of directors approved the business combination or the acquisition of the stock that resulted in the person becoming an interested shareholder before such acquisition. We may engage in a

business combination with an interested shareholder after the expiration of the three-year period with respect to that shareholder only if one or more of the following conditions is satisfied:

- the board of directors approved the acquisition of the stock prior to such shareholder's acquisition date;
- the business combination is approved by a majority of the outstanding voting stock not beneficially owned by the interested shareholder; or
- the consideration to be received by shareholders meets certain fair price requirements of the statute with respect to form and amount.

*Fair Price Statute.* The WBCL also provides, in Sections 180.1130 to 180.1133, that certain mergers, share exchanges or sales, leases, exchanges or other dispositions of assets in a transaction involving a "significant shareholder" and a resident domestic corporation, such as Plexus, require a supermajority vote of shareholders in addition to any approval otherwise required, unless shareholders receive a fair price for their shares that satisfies a statutory formula. A "significant shareholder" for this purpose is defined as a person or group who beneficially owns, directly or indirectly, 10% or more of the voting stock of the resident domestic corporation, or is an affiliate of the resident domestic corporation and beneficially owned, directly or indirectly, 10% or more of the voting stock of the resident domestic corporation within the last two years. Any business combination to which the statute applies must be approved by 80% of the voting power of the resident domestic corporation's stock and at least two-thirds of the voting power of its stock not beneficially owned by the significant shareholder who is party to the relevant transaction or any of its affiliates or associates, in each case voting together as a single group, unless the following fair price standards have been met:

- the aggregate value of the per share consideration is equal to the highest of:
  - the highest per share price paid for any common shares of the corporation by the significant shareholder in the transaction in which it became a significant shareholder or within two years before the date of the business combination;
  - the market value per share of the corporation's shares on the date of commencement of any tender offer by the significant shareholder, the date on which the person became a significant shareholder or the date of the first public announcement of the proposed business combination, whichever is highest; or
  - the highest preferential liquidation or dissolution distribution to which holders of the shares would be entitled; and
- either cash, or the form of consideration used by the significant shareholder to acquire the largest number of shares, is offered.

*Control Share Voting Restrictions* . Under Section 180.1150 of the WBCL, unless otherwise provided in the articles of incorporation or otherwise specified by the board of directors, the voting power of shares of a resident domestic corporation held by any person or group of persons acting together in excess of 20% of the voting power in the election of directors is limited (in voting on any matter) to 10% of the full voting power of those shares. This restriction does not apply to shares acquired directly from the resident domestic corporation, in certain specified transactions, or in a transaction in which the corporation's shareholders have approved restoration of the full voting power of the otherwise restricted shares. The Company's Articles do not provide otherwise.

*Defensive Action Restrictions*. Section 180.1134 of the WBCL provides that, in addition to the vote otherwise required by law or the articles of incorporation of a resident domestic corporation, the approval of the holders of a majority of the shares entitled to vote on the proposal is required before the corporation can take certain action while a takeover offer is being made or after a takeover offer has been publicly announced and before it is concluded. This statute requires shareholder approval for the corporation to do either of the following:

- acquire more than 5% of its outstanding voting shares at a price above the market price from any individual or organization that owns more than 3% of the outstanding voting shares and has held such shares for less than two years, unless a similar offer is made to acquire all voting shares and all securities which may be converted into voting shares; or
- sell or option assets of the corporation which amount to 10% or more of the market value of the corporation, unless the corporation has at least three independent directors (directors who are not officers or employees) and a majority of the independent directors vote not to have this provision apply to the corporation.

We currently have more than three independent directors. The foregoing restrictions may have the effect of deterring a shareholder from acquiring our shares with the goal of seeking to have us repurchase such shares at a premium over market price.

*Constituency or Stakeholder Provision*. Under Section 180.0827 of the WBCL, in discharging his or her duties to Plexus and in determining what he or she believes to be in the best interests of Plexus, a director or officer may, in addition to considering the effects of any action on shareholders, consider the effects of the action on employees, suppliers, customers, the communities in which we operate and any other factors that the director or officer considers pertinent.

The foregoing provisions of Wisconsin law, our ability to issue additional shares of common stock and preferred stock without further shareholder approval (except as may be required by the Nasdaq Global Select Market corporate governance standards) and the ability of our Board of Directors to fix the designations of classes of preferred stock (including the ability to issue preferred stock with substantial voting rights) could have the effect, among others, of discouraging take-over proposals for or impeding a business combination involving Plexus.

## List of Subsidiaries of Plexus Corp.

| Entity Name  | Incorporation Jurisdiction |
|--|----------------------------|
| Plexus Aerospace, Defense and Security Services, LLC | USA - Wisconsin            |
| Plexus Asia, Ltd.                                    | British Virgin Islands     |
| Plexus Corp. (UK) Limited                            | Scotland                   |
| Plexus Corp. Limited                                 | Scotland                   |
| Plexus Corp. Services (UK) Limited                   | Scotland                   |
| Plexus Deutschland GmbH                              | Germany                    |
| Plexus Electronica S. de R.L. de C.V.                | Mexico                     |
| Plexus Global Holdings Limited                       | China                      |
| Plexus (Hangzhou) Co., Ltd.                          | China                      |
| Plexus International Services, Inc.                  | USA - Nevada               |
| Plexus Intl. Sales & Logistics, LLC                  | USA - Delaware             |
| Plexus Management Services Corporation               | USA - Nevada               |
| Plexus Manufacturing Sdn. Bhd.                       | Malaysia                   |
| Plexus QS, LLC                                       | USA - Delaware             |
| Plexus Services RO S.R.L.                            | Romania                    |
| Plexus Services Americas S. de R.L. de C.V.          | Mexico                     |
| Plexus (Thailand) Co., Ltd.                          | Thailand                   |
| Plexus (Xiamen) Co., Ltd.                            | China                      |
| Plexus Corp (Singapore) Pte. Ltd. (Singapore)        | Singapore                  |

Omits inactive and dormant subsidiaries.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-4 (No. 333-48700) and Form S-8 (Nos. 333-76728, 333-150967 and 333-211236) of Plexus Corp. of our report dated November 15, 2019, relating to the financial statements, financial statement schedule and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP  
Milwaukee, Wisconsin  
November 15, 2019

## CERTIFICATION

I, Todd P. Kelsey, certify that:

1. I have reviewed this annual report on Form 10-K of Plexus Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 15, 2019

/s/ Todd P. Kelsey

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Todd P. Kelsey

President and Chief Executive Officer

## CERTIFICATION

I, Patrick J. Jermain, certify that:

1. I have reviewed this annual report on Form 10-K of Plexus Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 15, 2019

/s/ Patrick J. Jermain

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Patrick J. Jermain

Executive Vice President and Chief Financial Officer



**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Plexus Corp. (the "Company") on Form 10-K for the fiscal year ended September 28, 2019, as filed with the Securities and Exchange Commission on or about the date hereof (the "Report"), I, Todd P. Kelsey, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934;  
and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Todd P. Kelsey

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Todd P. Kelsey

President and Chief Executive Officer

November 15, 2019

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Plexus Corp. and will be retained by Plexus Corp. and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Plexus Corp. (the "Company") on Form 10-K for the fiscal year ended September 28, 2019, as filed with the Securities and Exchange Commission on or about the date hereof (the "Report"), I, Patrick J. Jermain, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934;  
and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Patrick J. Jermain

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Patrick J. Jermain

Executive Vice President and Chief Financial Officer

November 15, 2019

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Plexus Corp. and will be retained by Plexus Corp. and furnished to the Securities and Exchange Commission or its staff upon request.

## Return on Invested Capital ("ROIC") and Economic Return Calculations GAAP to non-GAAP reconciliation (dollars in thousands):

|  | Fiscal year ended     |                       |                       |
|--|-----------------------|-----------------------|-----------------------|
|  | September 28,<br>2019 | September 29,<br>2018 | September 30,<br>2017 |
| Operating income, as reported            | \$ 142,055            | \$ 118,283            | \$ 129,908            |
| Restructuring and other charges          | 1,678                 | —                     | —                     |
| One-time employee bonus                  | —                     | 13,512                | —                     |
| Adjusted operating income                | 143,733               | 131,795               | 129,908               |
| Tax rate                                 | 16.0%                 | 10.0%                 | 8.0%                  |
| Adjusted operating income (tax effected) | \$ 120,736            | \$ 118,615            | \$ 119,515            |
| Average invested capital                 | \$ 923,107            | \$ 735,598            | \$ 738,266            |
| ROIC                                     | 13.1%                 | 16.1%                 | 16.2%                 |
| WACC                                     | 9.0%                  | 9.5%                  | 10.5%                 |
| Economic Return                          | 4.1%                  | 6.6%                  | 5.7%                  |

## Average Invested Capital

|                           | Fiscal 2019       |                   |                   |                    |                   |                             |
|---------------------------|-------------------|-------------------|-------------------|--------------------|-------------------|-----------------------------|
|                           | Actual<br>9/28/19 | Actual<br>6/29/19 | Actual<br>3/30/19 | Actual<br>12/29/18 | Actual<br>9/29/18 | Average<br>invested capital |
| Equity                    | \$ 865,576        | \$ 860,791        | \$ 875,444        | \$ 905,163         | \$ 921,143        |                             |
| Plus:                     |                   |                   |                   |                    |                   |                             |
| Debt - current            | 100,702           | 138,976           | 93,197            | 8,633              | 5,532             |                             |
| Debt - non-current        | 187,278           | 187,581           | 187,120           | 187,567            | 183,085           |                             |
| Less:                     |                   |                   |                   |                    |                   |                             |
| Cash and cash equivalents | (223,761)         | (198,395)         | (184,028)         | (188,799)          | (297,269)         |                             |
|                           | \$ 929,795        | \$ 988,953        | \$ 971,733        | \$ 912,564         | \$ 812,491        | \$ 923,107                  |

## Average Invested Capital

|                           | Fiscal 2018       |                   |                   |                    |                   |                             |
|---------------------------|-------------------|-------------------|-------------------|--------------------|-------------------|-----------------------------|
|                           | Actual<br>9/29/18 | Actual<br>6/30/18 | Actual<br>3/31/18 | Actual<br>12/30/17 | Actual<br>9/30/17 | Average<br>invested capital |
| Equity                    | \$ 921,143        | \$ 882,360        | \$ 920,503        | \$ 933,849         | \$ 1,025,939      |                             |
| Plus:                     |                   |                   |                   |                    |                   |                             |
| Debt - current            | 5,532             | 6,365             | 180,772           | 179,881            | 286,934           |                             |
| Debt - non-current        | 183,085           | 180,204           | 27,217            | 26,047             | 26,173            |                             |
| Less:                     |                   |                   |                   |                    |                   |                             |
| Cash and cash equivalents | (297,269)         | (332,723)         | (402,470)         | (506,694)          | (568,860)         |                             |
|                           | \$ 812,491        | \$ 736,206        | \$ 726,022        | \$ 633,083         | \$ 770,186        | \$ 735,598                  |

## Average Invested Capital

|                           | Fiscal 2017         |                    |                    |                      |                     |                             |
|---------------------------|---------------------|--------------------|--------------------|----------------------|---------------------|-----------------------------|
|                           | Actual<br>9/30/2017 | Actual<br>7/1/2017 | Actual<br>4/1/2017 | Actual<br>12/30/2016 | Actual<br>10/1/2016 | Average<br>invested capital |
| Equity                    | \$ 1,025,939        | \$ 991,306         | \$ 961,438         | \$ 927,542           | \$ 916,797          |                             |
| Plus:                     |                     |                    |                    |                      |                     |                             |
| Debt - current            | 286,934             | 267,297            | 92,623             | 78,879               | 78,507              |                             |
| Debt - non-current        | 26,173              | 26,138             | 185,638            | 184,136              | 184,002             |                             |
| Less:                     |                     |                    |                    |                      |                     |                             |
| Cash and cash equivalents | (568,860)           | (519,172)          | (524,520)          | (496,505)            | (432,964)           |                             |
|                           | \$ 770,186          | \$ 765,569         | \$ 715,179         | \$ 694,052           | \$ 746,342          | \$ 738,266                  |