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Q1 2011 Tyco Electronics Earnings Conference Call

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to Tyco Electronics' first-quarter earnings call. At this time, all phone participants are in a listen-only mode. Later, there will be an opportunity for your questions, and instructions will be given at that time. (Operator Instructions) And as a reminder, this conference is being recorded. I would like to turn the call over to Senior Director, Investor Relations, Keith Kolstrom. Please go ahead.

Keith Kolstrom ***Tyco Electronics - Senior Director, IR***

Good morning, and thank you for joining our conference call to discuss Tyco Electronics' first-quarter results for fiscal year 2011 and our updated outlook for full-year 2011. With me today are Chief Executive Officer, Tom Lynch, and Chief Financial Officer, Terrence Curtin. During the course of this call, we will be providing certain forward-looking information, and we ask you to review the forward-looking cautionary statements included in today's press release. In addition, we will use certain non-GAAP measures in our discussion this morning. And we ask you to review the sections of our press release and the accompanying slide presentation that address the use of these items.

The press release and related tables, along with the slide presentation, can be found on the Investor Relations portion of our website at te.com. I did want to mention, I understand there could have been some possible technical difficulty with the slides related to the webcast. If you go on and it looks like it says Q3 2010 slides, it appears it's just a problem with that header slide. So, as far as I know, the slides are okay. You just page forward as we go through the presentation. And finally, for the participants on the Q&A portion of today's call, I would just like again to remind everyone to try to limit themselves to one follow-up question, to make sure we are able to get everyone in the allotted time. Now, let me turn the call over to Tom for some opening comments.

Tom Lynch ***Tyco Electronics Corporation - CEO***

Thanks, Keith, and good morning, everyone. If you could please turn to slide three. Heading should be Good Start to FY '11. Q1 was another good quarter for the Company and a good start to our fiscal year. Our financial results were strong, with sales growth of 11% to $3.2 billion in revenue and adjusted EPS of $0.73, which was a 55% increase over last year. The sales growth was at the high end of our guidance, and EPS was above the high end of our guidance. And we continue to run at about 14% adjusted operating margin at this level, excluding the impact of the ADC acquisition.

With respect to ADC, we completed the acquisition in December, and the integration is going very well. ADC had a small impact on our Q1 results, adding $51 million in sales and no effect to EPS. And in a few minutes, I will provide a full update on ADC. Quarter rates strengthened during the quarter and our book-to-bill, excluding our SubCom business, was 1.03. The order strength was strong across most of our businesses. In our largest business segment, automotive, demand continues to strengthen, and global production is now projected to be in the 76 million unit range for our fiscal year 2011.

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Orders in our industrial equipment, telecom infrastructure, and energy infrastructure businesses have been strengthening for the last two quarters, and are really following the trends we talked about on the last earnings call. We are also starting to see signs of improving demand in the distribution channel. The consumer and DataComm markets continue to be a little soft, due to customer inventory adjustments, and our book-to-bill is still below one in those businesses. However, we do expect them to improve in the second half of the fiscal year. Based on the trends and the inclusion of ADC, we have increased our full-year outlook, and now expect full-year revenue to be $13.9 billion to $14.3 billion and full-year adjusted earnings per share to be $3.05 to $3.20.

Just a quick recap, the increase to our full-year guidance reflect the following -- $1 billion of revenue and $0.12 of adjusted EPS from ADC and just a reminder, that's only 9.5 months of ADC, and Terrence will expand on that in a little bit. Increased automotive revenue, based on the increase in global automotive production I mentioned earlier, to 76 million units for the year. Our stronger first quarter of $0.73 adjusted EPS, and this is being partially offset by higher metal costs. As you know, copper and gold, especially copper in the last three months, has really done a run-up. In response to this increase in metal costs, we are being more aggressive on our price increases to offset this. But, there's no question metal is going to be a net headwind in the second half of the year, although we are going to be able to hold our earnings, as we outlined earlier.

If you turn to slide four, I will give you an update on ADC. Just a quick refresher. The combination of ADC and our Network Solutions segment creates a world-leading product range in broadband network connectivity. These products enable every connection point in the network, from the central office and data center, to the desk, TV, or smartphone. But we really go right from the server all the way to the side of the house.

The addition of ADC's distributed antenna system, or DAS products and technologies, also significantly strengthens our wireless connectivity portfolio for both indoor and outdoor applications -- or in building and outdoor applications, and complements our existing products offering. And this is -- this is increasingly important to handle the rapid increase in the demands of the smartphones. Our combined businesses also have very complementary geographic strength. ADC's strength, as we've mentioned before, is in North America and Asia Pacific, while GE's historical strength has been in Europe and India. We see -- early in the integration, but we see lots of opportunities to take this broader product range and strengthen our combined position in all of these regions.

And then, finally, the acquisition positions us extremely well for the pick-up in activity of new fiber installations globally. Many of you were aware of the proposed national broadband network in Australia, and in addition, there are significant new rollouts planned in Mexico, Spain, Brazil, and a number of other countries around the globe, where we believe we are positioned very well. You've probably seen recently -- additionally, I mean, we have seen acceleration of investment in existing builds. So, builds that have been going on, particularly in western Europe, are now going into -- appear to be going into an expanding phase.

Recently, NBN announced their initial infrastructure awards, and we are deep in negotiations with NBN as we speak, and continue to expect that TE is going to have a significant participation in this project. This closing on the ADC deal, this was also very compelling from a financial perspective. We continue to expect approximately $100 million of cost synergies from our integration efforts, and we expect to realize about 40% of those savings in fiscal 2011. As I mentioned earlier, for the year, ADC will add about $1 billion of revenue and $0.12 of adjusted EPS. We expect to exit the year at an adjusted operating margin of around 10% for the ADC business, and we remain confident that this business will reach the target margins of 15% in 2013.

Now, we are fully integrating our two businesses together. Through the year, we will keep you posted on our progress with ADC. But ADC and TE are rapidly becoming one business. So, a really nice start to the year, and I will now turn it over to Terrence Curtin. He will cover our Q1 performance and our outlook in more detail.

Terrence Curtin ***Tyco Electronics Corporation - EVP and CFO***

Thanks, Tom, and good morning to everyone. Let me start by giving an update on the top-line sales performance. If you turn to slide five, total Company sales of $3.2 billion were up 11% year-over-year, with growth across all our segments and geographies, as a result of the continued global economic recovery and our strong market positions. Excluding the SubCom business and ADC, the growth we saw was broad-based across all regions, with Asia up 16%. And this does include our China geography, which was up 20%. The Americas and Europe were up each about 10%. As Tom mentioned, ADC added $51 million to our quarter one sales, and currency translation decreased

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overall growth on a year-on-year basis by about 100 basis points.

On a sequential basis, organically, which excludes the currencies and acquisitions and divestitures, our sales were down, as expected, about 2%. Strong organic growth of 6% in our Transportation Connectivity segment, which was driven by our automotive market, was more than offset by expected declines in the Communications and Industrial and Network Solutions segments. Our total sequential growth of 2% was driven by the addition of ADC, and actually currencies benefited our top line on a sequential basis, even though they were negative on a year-on-year basis.

Now, let me get into the highlights of the key markets in each of our segments, and unless otherwise indicated, all changes I discuss will be on an organic basis. So let's turn to slide six. In our Transportation Connectivity segment, our sales increased 16% versus the prior year and were up 6% sequentially. Starting with Automotive, our sales increased 16% versus the prior year, and were up 9% sequentially. Year-over-year, sales were up 22% in Europe and up 12% both in Asia and the Americas.

Global vehicle production was in line with our expectations, at slightly above 18 million units in the quarter, which equates to year-over-year production growth of 5%. The demand trends that we're seeing remain strong across all regions, and based upon current projections, quarter two auto production is expected to be up 3% to 4% versus quarter one levels, to about 19 million units. This, once again, would be year-on-year production growth versus last year of 5%. Our sales growth greater than the production is being driven by a favorable vehicle mix, higher content, as well as the share gains that we have mentioned to you on prior calls. Based upon the external indicators, we are estimating that global production will be 76 million in 2011, which would be a 5% increase over 2010, and up about 2 million units versus our last call.

In the aerospace and defense market, sales were also up nicely at 12% versus the prior year, driven by continued improvement in the commercial aerospace and marine markets. While we did experience growth in the defense area, it was at a slower pace than the commercial aerospace market. And sales were down 8% sequentially, due to normal seasonality. For the Transportation Connectivity segment overall, we expect strong mid-teens year-on-year growth in quarter two, or mid-single digits sequential growth, with continued improvement in both automotive and the aerospace defense and marine areas.

Let's turn to slide seven now, and I will comment on the Communications and Industrial Solutions segment. Sales increased 13% versus the prior year, with growth across most end markets. Sequentially, sales were down 9% with broad-based declines, driven by the expected inventory channel adjustments that we discussed on last quarter's call. Let me touch upon a few markets in the segment. In the industrial equipment market, sales were up 24% versus the prior year, driven by the continued increase in capital spending on factory automation, as well as growth in the alternative energy markets, particularly solar.

In the DataComm market, which includes sales to the communication equipment server and storage markets, our sales increased 19% year-over-year, driven by both new customer program launches and continued spending on broadband infrastructure and data storage equipment. In the consumer device market, which includes primarily mobile phones and consumer electronics, the sales increase was driven by end unit growth and devices. In quarter two for the segment, we expect overall revenues to be similar to quarter one levels.

While we do believe the inventory adjustments that we highlighted last quarter are largely complete, and we saw improved order rates throughout the quarter in this segment, we ended the quarter with a 0.9 book-to-bill -- 0.99 book-to-bill. We do not expect the DataComm market to pick up until the second half of our year, and we will also be impacted by the seasonality in the consumer device and computer market. The softness in these areas will be offset by an -- stronger industrial sales.

So let me turn to slide eight now, and talk about Network Solutions. Total sales in the segment were up 7%, including the $51 million of ADC sales. On an organic basis, sales in this segment were up 2% versus the prior year, ad all markets except our SubCom business grew 10% to 35% organically. Sequentially, sales were down slightly by about 3%. This sequential decline was due primarily to the normal seasonal patterns in these infrastructure businesses.

To highlight the markets, sales to the energy market were up 13% versus the prior year, with strength in Europe and in the Americas. We continue to see steady improvement, driven by the recovery in this market around the world. Sales to the service provider market were up

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34% organically versus the prior year, driven by continued fiber acceleration in Europe. We continue to expect strong demand in the fiber network investment in all regions globally. In fact, due to the strength that we are seeing, we do not expect a traditional seasonal decline in the second quarter. And in the enterprise network market, our sales increased 10% versus the prior year, due to the increased data center spending.

In SubCom, as expected, sales declined 29% versus the prior year, and 2% sequentially. Booking in the quarters were $23 million, and in prior quarters I discussed two contracts for about $300 million combined, which we have been awarded and are in the process of securing funding. The financing process has taken a little longer than we originally anticipated, but we expect these contracts to come into force in the near future. In quarter two, we expect our revenue in SubCom of approximately $150 million, and continue to expect full-year 2011 sales of $600 million to $700 million. Overall in quarter two, we expect sales in the Network Solutions segment to be up approximately 30% compared to quarter one, due to the $280 million of acquired sales relating to ADC and continued recovery in the end markets.

Let me now get into earnings, which starts on slide nine. Our GAAP operating income for the quarter was $400 million, which includes $59 million of charges related to the ADC acquisition and $4 million of non-ADC restructuring charges. Of the total $59 million of ADC charges, $48 million is cash-related, and $11 million are non-cash charges primarily related to fair value purchase accounting adjustments for inventory and backlog. In quarter two, we expect approximately $42 million of total ADC charges, with $13 million being cash charges and $29 million of non-cash purchase accounting charges. As we stated previously, we expect to incur $110 million to $130 million of cash costs related to this acquisition. About 80% of these cash costs will be incurred in 2011, with approximately $61 million in the first two quarters. The non-cash purchase accounting charges that I mentioned will be complete in quarter two.

Turning to operating income, adjusted operating income was $463 million, with an adjusted operating margin of 14.5%. Margins were up 300 basis points versus the prior year, due to the volume increases and the operating leverage from prior cost actions and ongoing productivity programs. In the first quarter, we did benefit by about 50 basis points from favorable mix and other items in our margin, and it was primarily in the gross margin area. And excluding these favorable items, as Tom mentioned, our adjusted operating margin was right around 14%. Adjusted EPS for the quarter was $0.73, up 55% from $0.47 in quarter one 2010, driven by the strong leverage on the sales growth, a slightly lower effective tax rate, and the benefit of using our cash mainly around share repurchases. The acquisition of ADC had no impact on our first-quarter adjusted EPS.

Let's continue on to slide ten now. If you look at the top half of this slide, our gross margin in the first quarter was 31.9%. And this improved approximately 300 basis points from the prior year gross margin of 29%, due to the operating leverage on incremental volumes. In the second quarter, we expect our gross margin will be around 31%, which does include about 30 basis points of metal headwinds versus quarter one.

Looking at the bottom half of the slide, our operating expenses were in line with the guidance expectations of about 5% for RD&E and about 12.5% for SG&A. Expenses were up $59 million year-on-year, driven by the increase in sales. In quarter two, we continue to expect that RD&E will run about 5% of sales, but SG&A will be closer to 13%, driven by the acquisition of ADC and considering that we will continue to have cost integration actions happening that will continue to bring that rate down throughout the year.

Let's turn to slide 11, and let me cover some items on the P&L below the operating line. Net interest expense in the quarter was $30 million, compared to $35 million in the prior year. In quarter two, we expect approximately $36 million of interest, due to the addition of $250 million of new debt issued in quarter one and the impact of the ADC legacy debt prior to completing our tender. Other income, which relates to our tax-sharing agreement, was $12 million, compared to $8 million in the prior year. And for quarter two, I expect this will be same as quarter one. The GAAP effective tax rate was 30% in the quarter, and the tax on adjusted income was 26%. The GAAP tax rate was impacted primarily by the non-deductible nature of the ADC acquisition-related charges, and for the full year, we continue to expect a tax rate on adjusted income similar to the quarter one levels of about 26%.

Now, let me get into free cash flow that begins on slide 12. Our free cash flow in the first quarter was $45 million. Excluding the effect of ADC, which was a $50 million outflow, we were in line with the expectation I discussed on last quarter's call for the free cash flow of approximately $100 million. The $50 million ADC cash outflow included $35 million of acquisition-related spending, and this includes

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transaction costs, integration, as well as some severance. If you look at working capital, our days sales outstanding of 63 days was flat versus the prior year. And our inventory days on hand, excluding contracts in progress, were 65 days, which was up 2 days sequential. We do expect to bring the inventory down through the year to the lower 60-day level.

We had approximately $117 million of capital spending in quarter one, which is about 4% of sales. And this was an increase up from prior-year levels of $76 million. We do expect the capital spending for the full year 2011 to be about 4% of sales. Cash restructuring, excluding ADC in the quarter, was $22 million. And for the full year, we continue to expect approximately $130 million of cash restructuring related to the actions we took in prior years. For ADC acquisition-related cash spending, we did have $35 million in the quarter. And for the full year, we expect $105 million of cash spend related to the acquisition. We continue to expect that our 2011 free cash flow will be in excess of $1.2 billion, excluding the $105 million of ADC acquisition-related spending.

So let's turn to the balance sheet on slide 13, and I will get into debt liquidity. We ended quarter with about $1.4 billion of cash, and during the quarter we did pay $1.28 billion for the ADC acquisition. This $1.28 billion was partially offset by the cash assumed in the deal of approximately $550 million, which resulted in a net cash outflow of $717 million. In addition, as part of the acquisition, we also acquired marketable securities of approximately $150 million and assumed debt of about $650 million. We initiated offers to repurchase this debt in quarter one, and we expect the tender to be completed here in the second quarter.

Also, as previously communicated, we plan to finance a portion of the cost of the ADC acquisition through issuance of debt, which we issued in December via a $250 million offering of ten-year bonds. If you take this new debt and you consider all ADC legacy debt, if it's all tendered, we would have about $2.6 billion of debt outstanding. On the other use of the cash during the quarter, we did redeem $100 million of commercial paper. And we also returned $116 million of capital back to our shareholders through dividends and the repurchase of about 1.4 million shares.

So let me move to slide 14, and I will talk about an overview of our orders prior to getting into our outlook. Starting at the top, in Transportation Connectivity, our largest business, automotive, continues to show strengthening demand across all the regions. Auto production is now projected to be up 5% versus 2010, and as we saw in the first quarter, we expect that our auto business will continue to grow faster than the overall auto production market, as we benefit from content growth, a slightly favorable mix, and market share gains. In the aerospace and defense and marine markets, they also continue to show signs of improvement, driven by commercial aerospace as well as the marine area, which is really oil and gas. This improvement in these markets, combined with our increasing content on new platforms and new customer wins, are driving the trends in the order levels.

In our Communications and Industrial Solutions segment, as I mentioned, orders improved throughout the quarter, but we still ended with a book-to-bill of 0.99. The industrial end market strength is being offset by the continued sluggishness in the consumer and DataComm markets, which we do not expect to improve until the second half. In our Network Solutions segment, as I mentioned, demand continues to remain robust and also continues to recover. And we still expect our revenues in the second half of the fiscal year to be up approximately 10% versus the first half, excluding ADC. ADC's revenues for the full year are expected to be approximately $1 billion, and we still are very encouraged by the increasing fiber activity we see, especially outside the United States, by carriers to expand and upgrade their broadband networks.

So now, let me talk about the outlook on slide 15. For the second quarter, we expect our sales to be in the range of $3.45 billion to $3.55 billion, which is an increase of 17% to 20% over the prior year. This includes approximately $280 million of revenues from ADC, and the year-over-year increase is broad-based across all markets offset by a decline in our SubCom business. Our adjusted Q2 earnings per share are expected to be $0.70 to $0.74 per share, which is up 9% to 16% versus the prior-year second quarter. This includes approximately $0.02 of adjusted earnings per share related to ADC, and ADC will negatively impact our operating margins by about 70 basis points in quarter two, as we still are implementing our integration and the expected cost savings that are on track.

Excluding ADC, this implies an adjusted EPS of $0.68 to $0.72, and is about a 14% OI, which is down slightly from quarter one on flat revenues, due to the quarter one favorable mix in the network segment that I mentioned, as well as the slight increase in the metal headwinds. For the full year, sales are expected to be $13.9 billion to $14.3 billion, up 15% to 18% versus fiscal 2010. ADC adds approximately $1 billion in the revenues for the full year, or about 800 basis points of the year-over-year growth.

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As we covered in our last call, fiscal 2011 includes a 53rd week, which will occur in the fourth quarter, which adds approximately 200 basis points or $240 million to the year-over-year growth. Full-year earnings per share on an adjusted basis are expected to be $3.05 to $3.20 per share, compared to the $2.54 in 2010, which is an increase of 20% to 26%. ADC adds approximately $0.12 to the full-year adjusted EPS, and the 53rd week adds about $0.05 per share. The midpoint of this full-year guidance is $0.17 higher than we guided last quarter, due to the addition of ADC and the strong performance we had in the first quarter, and the strength we see in automotive, offset partially by metals headwinds. This guidance assumes current foreign exchange rates and commodity prices. So now, let me hand the call back over to Tom.

Tom Lynch ***Tyco Electronics Corporation - CEO***

Thanks, Terrence. Just wrapping it up here. The fourth quarter was -- the first quarter was our fourth consecutive quarter of operating margins of 14%, in the $12 billion to $12.5 billion annualized range, of course excluding ADC. And it was a quarter with solid revenue in growth in most of the industries and in all regions. And it was a quarter in which, if you go back a year ago when we started -- when we were beginning to close the gap on our original goal of 12% at $12 billion, that was based around a $3 copper price. So, the team has done a great job of being able to deliver 14% at $12 billion and overcome about a 25% increase in metals overall.

The market demand for the year is a little stronger than we saw it last quarter. As Terrence mentioned, due primarily to the strength in automotive. But we do expect virtually all of our businesses, with the exception of SubCom, to show solid year-on-year revenue growth across the balance of this year. And there is very good momentum in automotive and in our network infrastructure businesses. And this does assume -- this outlook does assume that consumer and DataComm begin to grow a little bit in the second half of this year. The ADC integration, while still in the early stages, is progressing very well. And we'll start to see a little bit of earnings accretion in Q2, and then the level picks up by Q3.

And as we mentioned, the biggest challenge right now is the price of metals, but our view is with a combination of productivity, more aggressive pricing that's already underway, and the volume growth we expect in the second half, we'll overcome most of that and deliver this $3.05 to $3.20 EPS. So all in all, a good start to what we believe is going to be a good year. So let's open it up for questions now.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Our first question comes from Amitabh Passi with UBS. Please go ahead.

Amitabh Passi ***UBS - Analyst***

Hi, thank you. My first question just had to do with the full-year guidance you provided. Just a couple of sub-parts related to that. It looks like you are assuming $1 billion dollars for ADC, yet I believe ADC almost did $1.1 billion on a trailing 12-month basis in calendar year 2010. So just assuming why you are anticipating flattish to perhaps slightly down sales in ADC.

And then, just to get to your full-year guidance, it looks like you lead a decent step-up in revenues in the June quarter and in EPS. Just trying to understand where that's coming from. If you could perhaps provide a little more color in terms of the revenue trajectory in the back half of your fiscal year.

Tom Lynch ***Tyco Electronics Corporation - CEO***

Sure, thanks, Amitabh. Remember, ADC is only -- that $1 billion is only nine and a half months. So we only had $50 million in Q1. So, if you just took that run rate, it's close to $1.2 billion, what its run rate has been. Although, like our Telecom business, we see some momentum there.

In terms of the step-up in earnings, a couple of things there. The networks business is in -- as much as there is momentum in it now, it's still in the winter. And so, both energy and Telecom infrastructure we expect first half, second half, will be up nicely due to market momentum, our position, and better weather. The normal seasonality. So that's part of it.

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And our consumer businesses that are muddling along a little bit right now, I'd say, not including automotive, we do expect as we get through the inventory adjustment that that's going to pick up a little bit. And then, don't forget, there's an extra week in the second half of the year. So, there is definitely first half, second half growth. I'd peg that to general economic growth, and a little bit of momentum on our side. But that's how we get there.

Amitabh Passi ***UBS - Analyst***

Okay. And then, just for my follow-up, Tom. NBN, perhaps you could provide us a bit of an update. We saw $1.6 billion in awards made. You were not in the first set of awards. A lot of confusion, what that means and doesn't mean. So perhaps you could clarify what your position is, where you are in the bidding process at NBN.

And then related to that, can you just give us a sense of your pipeline when you look at fiber to the X opportunities globally? You mentioned Mexico, Spain, Brazil. Any sense of just how big the order pipeline is, just so that we can get a sense of what's in your funnel or your pipeline today?

Tom Lynch ***Tyco Electronics Corporation - CEO***

Sure. On NBN, I'd say the two pieces of NBN are -- there's no question that the combo of TE and ADC, if you go back a year ago and we looked at where we thought we would come out on NBN, when you risk-assessed it, the combination strengthens our position. The one thing it did do, is it slowed down the process for us a little bit, because the customer really didn't want to end their end of the detail negotiations with two companies and then have to harmonize that all. So we got started a little later. We fully expect -- I mean, would be very disappointed if it didn't come out this way and surprised, to get a nice hunk of business out of that. And so, I would say stay tuned over the next couple of months on that.

In general, the pipeline that we mentioned, Spain, Brazil, a couple of other areas, we are seeing a nice pick-up where there has been very little fiber. We are not at liberty to talk about it yet, but we have been selected as the initial supplier on one of those. And those are typically $100 million-type businesses over three or four years to start. It's hard to call the whole -- if they do everything they say they are going to do, they are going to be very big. But you know how this business -- it kind of goes in fits and starts. But there is a lot more activity now than there was a year ago.

And just as importantly, in the existing networks where fiber has been rolled out over the last five or six years, to go back -- there was a nice cycle back five or six years ago, then the last three years in western Europe and the US there has been a lull in that cycle. And for sure in western Europe, we're seeing that pick up. And that's our strong suit. So we feel good about that pipeline right now. And you can see it in our revenue in the Telecom networks business the last two quarters. The significant growth in the revenue. So there feels like there is nice steam in the engine.

Amitabh Passi ***UBS - Analyst***

Okay. Thank you.

Tom Lynch ***Tyco Electronics Corporation - CEO***

You're welcome.

Operator

Our next question is from Wamsi Mohan with Bank of America. Please go ahead.

Wamsi Mohan ***Bank of America - Analyst***

Yes, thank you very much. Good morning. In the automotive business, you mentioned in your slides Europe up 22%. Can you talk a little bit about how much of that is coming from domestic European markets versus markets like China? And how much longer do you expect the strength within the China market to continue in the premium segment?

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Tom Lynch ***Tyco Electronics Corporation - CEO***

Sure. If you break up Europe into a couple of pieces, a big part of Germany, roughly half of their automotive production is export. And US and China are the two largest markets for their export. So I would say, most of the strength we saw in the second half year last year and the first quarter was largely export-related. Although, new car registrations are up for the first time in a while in Germany. And you see the outlook for the German economy is pretty positive right now.

China, the market grew about 50% last year in production. We grew about 70%. We don't expect that kind of growth this year, and our outlook would expect a market growth in the neighborhood of 10%. And we would expect to grow well in excess of that, because we are very well-positioned there. So, still a nice growth coming off a huge growth in China. But it's getting to be such a big market, that you are not going to probably see 40% or 50% unit growth there.

Wamsi Mohan ***Bank of America - Analyst***

Yes, thanks for the color. And as a follow-up, can you perhaps help with the assumptions around the automotive revenue growth in the context of the things that you spoke about, in terms of mix, content growth, and share gains?

Terrence Curtin ***Tyco Electronics Corporation - EVP and CFO***

When you look at it, Wamsi, the unit production growth I mentioned is about 5% year-on-year, and it looks like it is going to tee up pretty naturally throughout the year, evenly 5% year-on-year by the quarters. When you look at the amount above it, it's pretty equally split between share and content growth. So, when you look at it, it's pretty evenly split between those two elements above production.

Wamsi Mohan ***Bank of America - Analyst***

Thanks a lot, guys.

Terrence Curtin ***Tyco Electronics Corporation - EVP and CFO***

Thanks, Wamsi.

Tom Lynch ***Tyco Electronics Corporation - CEO***

Thank you.

Operator

We will go to Matt Sheerin with Stifel Nicolaus. Please go ahead.

Matt Sheerin ***Stifel Nicolaus - Analyst***

Yes, thanks, and good morning. So I wanted to ask a few questions regarding the gross margin. So, Terrence, you guided to 31% for the March quarter. So, that assumes, I think, a 30 basis point headwind on metals. And then, the assumption that ADC also drags that down, correct?

Terrence Curtin ***Tyco Electronics Corporation - EVP and CFO***

Actually, when you look sequentially, Matt, ADC has no impact on the gross margin. ADC, where it's impacting our margin on an OI level, has to do with more of the OpEx area.

Matt Sheerin ***Stifel Nicolaus - Analyst***

On the cost side, okay.

Terrence Curtin ***Tyco Electronics Corporation - EVP and CFO***

Below the gross margin. When you think about the 31.9% we did, down to about 31% in the second quarter, the first quarter did have, as I mentioned, we had a favorable mix items, and we built some inventory in the first quarter that benefited our gross margin by about 50 basis points in the first quarter. And that's why I commented that our OI was running about 14%. So that takes you to a mid-31% gross margin, and then you get the metals headwinds sequentially of about 30 basis points. It gets you down to about a 31%.

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Matt Sheerin ***Stifel Nicolaus - Analyst***

Okay, and as you think about that 31% number, does that factor in any successful price pass-through to customers? Or is there a lag impact there? And as you negotiate contracts with customers, is the conversation getting a bit tougher now that supply has opened up, things aren't as tight as they were six months ago, and end demand isn't growing as fast as it was?

Terrence Curtin ***Tyco Electronics Corporation - EVP and CFO***

Let me take the first half, and I will ask Tom to talk about the customer discussions. That 30 basis points does have some price, but you are right. Pricing happened on a lag basis. Certainly, the run-up in copper that we saw -- and gold, from our last call, happened really in December and in January. And you know there is a lag effect. So, it is a net negative in our second quarter, but there will be some lag benefit later in the year.

And Tom, why don't you talk about -- .

Tom Lynch ***Tyco Electronics Corporation - CEO***

Yes, and then I would say that just -- add on to that, that selective price increases in the last six months, which often shows up in less price erosion than normal, but going forward more aggressive price increases, but that's always tough. I mean, that's really a customer-by-customer basis in the customers where you are selling to the tier ones or the OEMs. It's not generally a broad-based increase, whereas through the channel and into the smaller customers you can do that a little more. So, I would say the discussions are always difficult.

And even though supply is a little bit better than where it was, the good news is that customers are still generally pushing to make sure we can supply. So it's never easy. But our view is, we have to get a little more than we have in the past, when you break through $4 in copper and you are at $1,300 an ounce for gold.

Matt Sheerin ***Stifel Nicolaus - Analyst***

Okay. And then, just segueing into the distribution channel, you talked about pricing going up there. And I know there is also a bit of an inventory build and a correction there. Was some of that related to the fact that they built ahead of price increases, and have you seen inventory start to cool down, if you will? Or come down in the channel?

Tom Lynch ***Tyco Electronics Corporation - CEO***

I think inventory definitely started to balance out. We can see it in the sell-in and sell-out numbers, which we have a pretty good handle on. I don't think that build last -- that gradually happened in the last two quarters is really around pricing. I think it was more around the supply chain of the last year. Everybody was trying to cover themselves. And so, you have a little bit of double ordering. Not anything totally out of control, but definitely required a somewhat balancing out. But that feels like it's almost behind us now.

Matt Sheerin ***Stifel Nicolaus - Analyst***

Okay. That's helpful. Thank you.

Tom Lynch ***Tyco Electronics Corporation - CEO***

Thank you.

Operator

And our next question comes from Craig Hettenbach with Goldman Sachs. Please go ahead.

Craig Hettenbach ***Goldman Sachs - Analyst***

Yes, thank you. Tom, just a follow-up on the automotive, the theme of content growth and share gains. Any specific drivers within content that you are most excited about for this year? And then also, from a market share perspective, any trends by geography or things you can point out to there?

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Tom Lynch ***Tyco Electronics Corporation - CEO***

Yes, I would say a year ago, 18 months ago, I think we were worried that content would go down, maybe not significantly, but it would reverse its long trend and go down, because people might move to smaller cars. What we are seeing in every region, in virtually every model, the content keeps going up. There is just, the push for safety, the push for more fuel-efficient current engines, requires more electronics. And the push for more connectivity, in general, so you can bring all of your smartphones right into the car is definitely driving content across the board. That's the short-term, I would say, content driver.

The mid- to long-term content driver is hybrid vehicles and electric vehicles. And pretty much every auto maker now, if they haven't introduced one, they are close to introducing one. So I think we are moving past it, it's really going to happen to -- because governments are pushing fuel efficiency. So that's not really driving content yet, which is an exciting part of the business. That's going to come.

I think from a geography position, we are very strong in China. And in the last couple of years, we have made nice share gains in China, to the best of our estimates. We have always been strong in Europe, and we are maintaining that. And we are picking up some -- a little bit of share in the US, which historically was our smallest market because of the captive nature of the Big Three for most of their careers of their suppliers of connectivity. That's opened up. And then, we kept investing during the downturn, and I think that's starting to help us out.

Craig Hettenbach ***Goldman Sachs - Analyst***

Okay. And as my follow-up, Terrence, the dividend announcement last quarter, with ADC complete now, and the expectation for $1.2 billion in free cash flow, what's the priority of the Company and the Board from a capital allocation dividends relative to buybacks?

Terrence Curtin ***Tyco Electronics Corporation - EVP and CFO***

When you look at it, Craig, it's the same as we've always said. Certainly, it's always first around funding the business, to fuel the growth. And then when you get into, specifically, your question, we have teed up the dividend increase from a payout ratio, like we've said, and it's in line with our traditional payout ratio. So that will be voted on by our shareholders here in March. And then after that, as we see -- we have excess capital, we will execute share buybacks. We did a little bit in the first quarter, a little bit lighter due to the ADC acquisition. But I expect you'll continue to see us doing buybacks, if there is not an opportunity out there where we need our capital for. And it's very consistent with where we've been.

Craig Hettenbach ***Goldman Sachs - Analyst***

Okay, thank you.

Terrence Curtin ***Tyco Electronics Corporation - EVP and CFO***

Thanks, Craig.

Operator

Our next question comes from William Stein with Credit Suisse. Please go ahead.

William Stein ***Credit Suisse - Analyst***

Thanks. Terrence, I'm wondering if you can tell us a bit about the inventory performance in the quarter. I didn't expect it to rise this way, and I understand it benefited gross margins, it's going to hurt gross margin next quarter. Can you give us an idea as to what happened there, and why you are confident it's going to go lower in the next few quarters?

Terrence Curtin ***Tyco Electronics Corporation - EVP and CFO***

Well, number one is, as we've said before, we feel we can run the business in the low 60 days. Some of it is, our end markets are in different states. We have places like our automotive market that's strengthening. We did build in that area. Some of the markets in our CIS are a little bit more delayed, so we did build there a little bit, as we will work off as the markets improve. And we are also in the networks, also building as well.

So when you look at it, we did expect to have an inventory build in our guidance. Like I said, we had our free cash flow. It was a little bit

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more than we thought. But like we've said historically, I think bouncing around a couple of days will happen between quarters, based upon seasonal patterns. So, you will see that come down throughout the year, and I feel confident we will be in the low 60 days by the end of the year.

William Stein ***Credit Suisse - Analyst***

Okay. And then, I'd like to touch a little bit, as a follow-up, on the touch systems business. It looks like it was a little weak. I think, also, the year-over-year performance isn't great. Is there a broader share shift to other technologies that you're not participating in, or anything else going on in that market that's causing this business not to grow, relative to what seems rather obvious, that touch is proliferating in so many consumer electronics applications?

Tom Lynch ***Tyco Electronics Corporation - CEO***

Sure. I would say two things. In the commercial and industrial side, which is most of our business, the 12-inch screen or the 15-inch screen, now we're introducing digital signage, things like that. In that business, it's been a little bit slow related to the consumer slowdown. Typically slow late in the year. We're starting to see signs of orders pick up there.

We aren't yet participating in the consumer screen business. That was an objective of the acquisition, the small acquisition we made last year, to be able to get some additional technology, potentially bundle it with our technology, and take a run at that. But we're not really in that business yet. So, if you were to take the entire world of touch, and say, hey, that whole market, what's our market share? From that perspective, it's down. I would say we are holding our share solidly in the commercial and industrial space. But as the consumer space is the one that's really high growth, we haven't participated in that yet. And this is a key year for us to introduce a couple of products there to get a beachhead.

William Stein ***Credit Suisse - Analyst***

Is the idea to extend what you have done with sensitive objects, to try to push that technology forward? Or would you do new R&D in that area, or new acquisitions to improve your position?

Tom Lynch ***Tyco Electronics Corporation - CEO***

It's much more an organic focus. Take that technology and link it with some of our other technologies to get a big thing in the small screen world is power, and can you do it with a minimal number of layers on the screen, which gives the rest of the device more flexibility. So that's what we are trying to drive to. We don't think it's a winning strategy for us to just replicate what's already out there, which is pretty established. So, that's our focus. And we wouldn't be looking at -- never say never, but we wouldn't be looking at doing that inorganically right now, based on the technology.

William Stein ***Credit Suisse - Analyst***

Thank you.

Tom Lynch ***Tyco Electronics Corporation - CEO***

Thanks, Will.

Operator

And we'll go to the line of Shawn Harrison with Longbow Research. Please go ahead.

Shawn Harrison ***Longbow Research - Analyst***

Good morning, Tom and Terrence. Two brief questions. First off, ADC, I think when the deal was initially announced, you were talking about $0.14 of full 12 months first accretion. It looks like now, kind of backing into it, maybe it's $0.17 to $0.18. So, if you could just talk about maybe where you are seeing some of the upside, versus that original accretion forecast.

Terrence Curtin ***Tyco Electronics Corporation - EVP and CFO***

When you look at it, the $0.12 certainly is nine and a half months versus your $0.14. The financing we were able to do look better, and we're getting the cost actions, and we see where the run rate we are getting are coming in on the integration a little bit quicker than we thought. So, I think it's a combination of those two, Shawn, that will get us on a better run rate. And like you can see, the guidance is

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$0.12 for the year, $0.02 in the second quarter. We will be exiting this year at a $0.20 run rate. So if you assume $0.05 in each of the second half quarters. So, we feel very good, like Tom said, about the integration activities. And also where the market is going is very positive. I think that could provide alternative leverage as we get out on it.

Shawn Harrison ***Longbow Research - Analyst***

Okay. And so, if you see the end market strengthen further, that $0.20 run rate could definitely improve.

Terrence Curtin ***Tyco Electronics Corporation - EVP and CFO***

Definitely.

Shawn Harrison ***Longbow Research - Analyst***

Okay. And the follow-up question just has to go with the pricing. Given that you sound to be -- or you need to be potentially a little bit more aggressive on cost recovery, because of the move in copper and gold, I know historically it had been kind of a 50% to 60% recovery versus the move in commodities. Do you think you can drive that ratio higher over the next couple of quarters, just given it's a global inflationary environment for commodities?

Tom Lynch ***Tyco Electronics Corporation - CEO***

We certainly are going to try to do that. Our outlook would assume that it doesn't get higher than that. Part of it is how your contracts are staged, and X amount -- about 20% to 30% of the business is what I'd call pay as you go. You do have agreements, but they don't tend to be long-term. The rest of the product you are shipping today does tend to have some type of term to it. Now, in some cases, you do have some flexibility to try to go in and adjust the price. But I would not expect, we're not limiting our efforts. But in terms of how we express it in our guidance, we're not counting on a recovery of more than that.

Shawn Harrison ***Longbow Research - Analyst***

Okay. And then, with ADC, is the price recovery there much more similar to your legacy network solutions business, which it was essentially more of a full recovery?

Terrence Curtin ***Tyco Electronics Corporation - EVP and CFO***

Correct.

Tom Lynch ***Tyco Electronics Corporation - CEO***

Yes.

Shawn Harrison ***Longbow Research - Analyst***

Okay. Thank you very much, and congrats on closing the deal.

Terrence Curtin ***Tyco Electronics Corporation - EVP and CFO***

Thanks, Shawn.

Operator

Our next question is from Steve O'Brien with JPMorgan. Please go ahead.

Steve O'Brien ***JPMorgan - Analyst***

Hi, thanks for taking my question. I'd like to talk a little bit about the consumer business, and I know it's not just pure mobile devices any more. You have some of the other segments of the old EC business. You have circuit protection in there. But it does seem like the growth rates might be lagging some of the trends in smartphones and tablets, et cetera, and maybe some competitor performance. If you could provide some more color there around the business, in terms of what dragged down the Q1 performance here, and why you are optimistic about the second half of the year.

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Tom Lynch ***Tyco Electronics Corporation - CEO***

Sure. I think your assessment is fair. I think if you look at our consumer business, you can break it down into a few pieces. The smartphone piece, tablet, PC, and traditional consumer electronics. Traditional consumer electronics, we're very selective in, and that part of the business hasn't been that strong. Obviously, the strength has been in smartphone and tablet.

I would say the good news for us in the last six months is, we have a beachhead there. But that's clearly not our strong suit yet. We are not broad-based in those markets as we would like to be. Those are attractive markets. And go back three or four years, we weren't really in the mobile phone market at all. We did a nice job of getting established in the core business, and now we are going through the same thing in the smartphone business. Again, if you were to put it on our list of things we feel best about, the things we don't feel best about, you'd put this in the area we don't feel best about, but we have some momentum.

Steve O'Brien ***JPMorgan - Analyst***

Thanks, Tom. As a follow-up, could you discuss -- I know with this realignment, it's not just different numbers here coming on the press release. He helped us understand how you've realigned the organization, and how that might improve efficiency here in the longer term.

Tom Lynch ***Tyco Electronics Corporation - CEO***

You mean about the segments?

Steve O'Brien ***JPMorgan - Analyst***

Right, exactly.

Tom Lynch ***Tyco Electronics Corporation - CEO***

I would think of the segments as kind of an organizational gathering place. If you look at our segment leaders and the people they have at the segment level, it's not a lot of people. Underneath, we are organized in about 22 business units. So, we tend to be organized around market segment, and we gather aerospace and defense, our relay business, our automotive and commercial vehicle business and transportation, our communications and industrial business segment, which we call CIS, has a bunch of segments in it. Everything from medical and circuit protection, touch, data communication, consumer devices, industrial appliance.

And we try to group these things where there is the most synergy to be had. We like the businesses to be run vertically, so that somebody wakes up every day in a business like appliance or like Telecom networks in our networks business. But we group them where they are similar technology, because we have really a broad range of technology, and we also want to make sure we lever our scale, whether it's purchasing power, whether it's manufacturing footprint. So that's kind of the organizational philosophy. So you could expect, over time, the segments could be tweaked at times, like we have just done recently. But the units underneath them, the businesses themselves, are pretty well established and full fledged businesses that we don't mess with.

Steve O'Brien ***JPMorgan - Analyst***

Okay. Thanks.

Terrence Curtin ***Tyco Electronics Corporation - EVP and CFO***

Thank you.

Operator

And we will go to the line of Steve Fox with CLSA. Please go ahead.

Steve Fox ***CLSA - Analyst***

Hi, good morning. Two questions. First of all, on ADC, you've talked about the growth opportunities for in-building wireless, but obviously it's not making a lot of money right now. Just having it under -- as part of Tyco now for a few weeks, can you just talk about whether you've seen anything positive or negative in that business, that makes you more or less confident in its growth and profitability? And then I had a follow-up.

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Tom Lynch ***Tyco Electronics Corporation - CEO***

Yes, there is a lot of activity, and every time somebody announces a new smartphone, or smartphone continues to gain a bigger portion of the overall mobile network, or tablets for example, I think it's all good for broadband infrastructure. And it requires that structure to be augmented by things like distributed antenna systems that add capacity and coverage in a cost-effective way. One, it's not easy to build towers all over the place. And as you know, in a lot of buildings, your coverage tends to weaken.

So it's a strategic product line for both our Telecom networks and our enterprise business. And that was one of the attractive things about ADC. I mean, it's still in the early stages, that whole portion of the market. But there is momentum there. There is a lot of RFP activity.

Steve Fox ***CLSA - Analyst***

But do you have more or less confidence around actually making money on that product line going forward?

Tom Lynch ***Tyco Electronics Corporation - CEO***

Of course.

Steve Fox ***CLSA - Analyst***

More?

Tom Lynch ***Tyco Electronics Corporation - CEO***

More.

Steve Fox ***CLSA - Analyst***

Okay. And then, just as a follow-up, obviously there is more material headwinds than you would have expected maybe three to six months ago. But you are still getting some leverage out of the business. Can you just talk about long-term targets of 15% plus, any change in the confidence level there, and what you can, say, be doing once ADC is integrated?

Tom Lynch ***Tyco Electronics Corporation - CEO***

I think we are still very confident, even despite the headwinds. I mean, we have to be successful on the pricing actions we talked about. We have to be very successful with the integration of ADC, but that's off to a very good start and we're confident about that. We like the mix of businesses we have. Our day to day, grind it out productivity, we're better at that than we were three or four years ago.

So, our view of -- if you take ADC aside, because it's going to take a couple of years to get that part of the business to 15%. But what I would call the core business, still looking at 15% at the $14 billion revenue range. So, hasn't changed. There's a little more pressure on that because of metal prices being much higher than we thought six months ago. But we would expect volume to be the biggest lever we have, too.

Steve Fox ***CLSA - Analyst***

Great. Thank you very much.

Tom Lynch ***Tyco Electronics Corporation - CEO***

You're welcome.

Keith Kolstrom ***Tyco Electronics - Senior Director, IR***

Operator, we have time for one more question.

Operator

And our final question this morning will come from Jim Suva with Citigroup. Please go ahead.

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Jim Suva ***Citigroup - Analyst***

Congratulations to you and your team for great results and a strong outlook. My questions are, first of all, on the material in the metals headwinds. Am I correct that it's still about 7% of cost to goods sold for the raw materials? I think in your presentation you gave a while ago that it mentioned it was about 7% of COGS. And does this change with ADC, with the integration of the company. And any hedging contracts that we should be aware of, as far as timeline, that may roll off, that may be a step function, whether it's six months down the road or something like that?

And then, the second question is, on the consumer side, maybe Tom, if you can make another crack at that question, as you claim that you have some momentum in the area, but really the last six months have been materially underperforming the market. And it looks like you basically missed much of the consumer Christmas season for that market. Is it just a competitive pricing environment? Are you less focusing on that area, and more so automotive? Is it getting more competitive in that market? Or why should we view that there is momentum there, or is it even worth really going after that segment aggressively? Thanks, gentlemen, and congratulations again.

Tom Lynch ***Tyco Electronics Corporation - CEO***

Thanks, Jim. So let me talk to the last part of that question first. We view that much of that market is attractive to go after, and we are going after it. As you know, we are pretty much in every market, and in some, given our historical performance and expertise, we are stronger than others. I think we have been getting better in this market, but we're not happy by any stretch of the imagination with our position.

If you go back a year ago, where we were in the big smartphone players versus today, we definitely have a beachhead, as the saying goes. So, we've won our first projects, we're shipping our first projects, and that's a start. I would agree that we have not benefited from the growth in this market as much as others. But it is an important market for us. And we are going to be in it for the long haul. So, we're investing in it.

Terrence Curtin ***Tyco Electronics Corporation - EVP and CFO***

Let me take your first part of your question. So Jim, it's about 10%, the metals. So when you take a copper, gold, silver, and that whole group, it's more like 10%, so you are a little light. When you look at ADC, ADC is similar with the way it weights, and what it will do to the total does not really change. And as Shawn asked, in ADC, its pricing is more consistent with our Network Solutions, which you have more of a pass-through environment than you do in some of the other segments.

On the hedging element, certainly our hedges -- it's a rolling hedging program. We don't hedge 100%. It's a rolling program. So that will have an effect throughout the year as hedges roll off. If you look at -- it's a smoothing effect. If you look at exiting the year, going into next year, if metals stay where they are, it could be about a $0.05 headwind going into next year, once all the hedges roll off, net of our productivity. So, that is the way you should think about the headwind, once hedges roll off, if metals stay where it's at, going into 2012.

Jim Suva ***Citigroup - Analyst***

Great. Thank you, and again, congratulations to you and your team.

Terrence Curtin ***Tyco Electronics Corporation - EVP and CFO***

Thanks, Jim.

Keith Kolstrom ***Tyco Electronics - Senior Director, IR***

Thanks, everyone, for joining us today. For sure, if you have questions after the call, please feel free to call Matt Vergare or I. Thanks again for joining the call.

Tom Lynch ***Tyco Electronics Corporation - CEO***

Thanks, everyone.

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Operator

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PLACEHOLDER TRANSCRIPT

Q2 2011 TE Connectivity Ltd. Earnings Conference Call

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the TE Connectivity reports fiscal second quarter results conference call. At this time all participants are in listen only mode. Later we will conduct a question and answer session. Instructions will be given at that time.

(Operator Instructions)

As a reminder, this call is being recorded. I would now like to turn the conference over to our host Mr. Keith Kolstrom, Senior Director of Investor Relations. Please go ahead .

Keith Kolstrom ***TE Connectivity Ltd - Senior Director IR***

Good morning, and thank you for joining our conference call to discuss TE Connectivity's second-quarter results for fiscal year 2011and our updated outlook for the full year 2011. With me today are CEO, Tom Lynch and CFO, Terrence Curtin.

During the course of this call we will be providing certain forward-looking information, and we ask you to review the forward-looking cautionary statements included in today's press release. In addition, we will use certain non-GAAP measures in our discussion this morning, and we ask you to review the sections of our press release and the accompanying slide presentation that address the use of these items. The press release and related tables, along with the slide presentation, can be found on the investor relations portion of our website at te.com.

Finally, for the participants on the Q&A portion of today's call, I would like to remind everyone to please limit themselves to 1 follow-up question to make sure we are able to cover all questions during the allotted time. Now let me turn the call over to Tom for some opening comments.

Tom Lynch ***TE Connectivity Ltd - CEO***

Thanks, Keith, and good morning everyone. Before we get into the detail of the call here I would just like to make a few opening comments about the earthquake in Japan. As many of you probably know, we have a very sizable presence in Japan and we feel very fortunate that all 2,000 of our people there came through the earthquake safely; and I really want to thank them in this venue for their commitment to keeping our operations running and supporting our customers during these incredible -- incredibly trying times over there.

Just a little background on our business in Japan; we have been there for over 55 years; we have 3 factories; we generate over $1 billion of revenue annually there, serving virtually all the major customers in automotive, communications, industrial, and the consumer electronics industries. And about 50% of our revenue there relates to our automotive business; and, as we will talk about today, you can

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imagine there is an impact to our business over the next couple quarters from the unfortunate circumstances there.

Now if you will turn to slide 3. A few quick comments about the quarter before I turn it over to Terrence. Our sales of $3.5 billion were up 17% over last year and 7% organically. Our sales benefited from the ADC acquisition which added about $279 million of revenue compared to the prior year. Adjusted earnings per share of $0.71 was up 11% over last year. And, both sales and adjusted EPS were in our guidance range.

Japan did cost us about $0.01 in the quarter. It happened late in the quarter, as you know . And, as we will talk about later, currently our estimate is that the impact is going to take about 3 million vehicles out of the global production forecast for the year.

Overall, I would describe Q2 as a solid quarter for us. The quarters were strong in our automotive, industrial, and networks businesses, and our overall Book to Bill, excluding our SubCom business, was 1.05. So, I feel very good over -- about the trends leading into the second half of the year when, notwithstanding the circumstances in Japan, we expect to see a nice pick-up in revenue and earnings. The ADC acquisition integration is going very well, and we are on track to deliver our sales and adjusted earnings goals for the year of $1 billion and $0.12 per share. And, importantly, and we talked about this on the last call, we were also awarded a $400 million 5-year contract to supply equipment for the Australian national broadband network; and this is the first big award leveraging the benefits of our combined product line.

So, we feel very good about the timing of the ADC acquisition, both from an ability to stay on track with the significant cost synergies there, as well as the very robust product line it is giving us. And we had another excellent cash flow quarter, generating about $450 million of free cash flow; and, as a result, we have now increased our full-year guidance on cash flow by about $100 million. So, we expect to do $1.3 million -- $1.3 billion in free cash flow for the year.

A quick comment about our outlook, and we will cover this in more detail year later, right now our adjusted EPS outlook for the year is now 295 to 307. A quarter ago we got it to 305 to 320, so the change -- the entire change in our outlook and the reduction in our outlook is due to our estimates of the impact of the earthquake in Japan on our business. And, as you can imagine, it's -- it's not easy to get your arms around this, so we will talk about that quite a bit over the call and I'm sure that will be a big topic of the Q&A. We do expect a majority of the impact to be in our third quarter and, as I said, we will talk about Japan in more detail -- or the impact of Japan in more detail. Let me now turn it over to Terrence Curtin, our CFO, and he will walk you through the second quarter in a lot more detail. And then I will close by covering the

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Terrence Curtin ***TE Connectivity Ltd - EVP and CFO***

Thanks, Tom, and good morning everyone. Let me start by giving an update on the sales front, and if you could please turn to slide 4. Total company sales during the quarter were $3.5 billion, and this was up 17% year-over-year with growth across all segments and geographies. If you exclude our SubCom business and ADC, growth was broad-based across all the regions, with EMEA up 14%, the Americas up 10%, and Asia up 8%. As Tom did mention, ADC added $279 million of sales during the quarter, and we did also benefit slightly from currency translation year-on-year.

Currency translation increased overall growth by approximately $40 million or 150 basis points. We did have a slight negative impact in Japan in the second quarter. That impacted our sales by approximately $20 million, mainly in our CIS segment.

When you look on a sequential basis from a growth perspective we were up 9%, mainly driven by the ADC acquisition, and, excluding the ADC acquisition, on an organic basis, sales were up 1%. This growth, on an organic basis, was driven by the industrial, our network infrastructure, and our automotive markets that drove it, and they were partially offset by declines in our consumer devices business and our CIS segment.

So, let me get into the segments and the key markets in each of them, starting on page 5; and, unless I indicate otherwise, all changes I will discuss will be on an organic basis. So, on slide 5, looking at the transportation solutions segment, sales were in line versus our guidance. Sales increased 14% versus the prior year and were up 3% on a sequential basis.

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In the automotive market, our sales increased 15% versus the prior year and were up 3% sequentially. Year-over-year sales were up 20% in EMEA, 19% in the Americas, and 8% in Asia. Global vehicle production during the quarter was 19.5 million units, which equates to a year-over-year production growth of 5%. Our sales growth at 2 times plus the production growth was driven by our leading global position and by increased content per vehicle.

The end-demand trends we see outside of Japan remain strong across all regions. However, for quarter 3, current estimates are that auto production will be affected by about 2 million vehicles compared to quarter 2, and about half of this vehicle impact is in Japan and about half outside of Japan, and it is driven by OEM slowdowns resulting from the impacts of the earthquake on the automotive OEMs and their supply-chains.

Taking into account this expected decline, global auto production is expected to be about 17.5 million vehicles in the third quarter. This equates to a production decline of about 6% year-over-year and 10% sequentially. The expectation we have for our auto sales and for quarter 3 is that it will decline slightly less than these production declines. We expect the effect of these disruptions to be temporary and combined into our third and fourth quarters; and, as global auto demand remains strong outside of Japan, we do believe we could see at least a partial recovery of the lost production early in our fiscal 2012.

In the other market we serve in the transportation solutions segment, the aerospace and defense marine market, sales were up 7% versus the prior year and up 4% sequentially. This is driven by the continued improvement in the commercial aerospace and marine markets, as well as increasing market share.

For the transportation solutions segment overall; we expect that our revenues will be down slightly versus quarter 2 levels, with the continued improvement that we expect in the aerospace defense and marine markets to offset mid-single digit declines in automotive, where the earthquake in Japan is expected to have an impact on our revenues of about $100 million in quarter 3.

So, let's turn to slide 6 and I'll talk about communications and industrial solutions segment. Sales increased 3% versus the prior year and declined by 1% sequentially. Strength in the industrial and data communications market, where our growth was about 10% year over year, was partially offset by declines in our consumer devices and computer businesses. So, let me get into these markets in more detail.

In the industrial equipment market, sales growth of 10% versus the prior year, and 2% growth sequentially, was really driven by the continued recovery in capital spending trends, which drove strong demand for factory automation, as well as rail projects in the emerging markets.

In the Datacom market, which we include sales to the communication equipment, server and storage markets, our sales increased 10% year over year, driven by new program wins and spending on broadband infrastructure and data storage equipment. Sales were down 3% on a sequential basis; this market has been developing slower than we expected, but, based upon current order trends, we do expect it to improve in the second half of the fiscal year.

In the consumer device area, our revenues were down 15% versus the prior year of 17% sequentially. Our sales decline is due to our customer mix and our relatively small portion in the smartphones market, which is certainly the fastest-growing portion of the mobile phone market. We do expect that in the second half our business in this area will pick up in line with normal seasonality.

In quarter 3, we expect that the revenues in the communication and industrial solutions segment overall will be similar to quarter 2 levels, and we do expect a negative impact of Japan of approximately $35 million. This impact is really driven by where we service our local customers in Japan, which is about 50% of our total Japan revenue that Tom talked about.

Turning to slide 7, to cover network solutions; total sales were up 51% including ADC sales of $279 million. On an organic basis, sales in the segment, excluding SubCom, were up 20% versus the prior year; and, as expected, our SubCom business was down 28%. Sales to the telecom networks market were up 33% organically versus the prior year, driven by the continued acceleration of fiber network builds; and we especially saw this in Europe and South America. Our sales reflect that the growth that we continue to see in the telecom carriers' investment in their fiber optic networks support the data and video needs on their networks. Sales to the energy market were up 12%

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versus the prior year, with particular strength in Europe; and we continue to see steady improvement driven by the recovery in this market around the world.

In the enterprise area, our sales increased 20% versus the prior year, on an organic basis, due to the increased data center spending and growth related to infrastructure build-outs in emerging markets. And, lastly, in the SubCom business; as I mentioned, sales declined 28%, as we expected, versus the prior year. Bookings in the quarter were $30 million; however, earlier in April we finalized the Singapore, or SGAC, contract, which will add $180 million to our backlog. This is one of the pending contracts that I have covered on prior calls; and we are still in active -- in discussions on a number of other bids and contracts that are in process; and we continue to expect full-year 2011 sales of $600 million to $700 million, with quarter 3 sales about $160 million.

On an overall basis, for the network solutions segment, we expect our sales to be up about 10% on a sequential basis compared to quarter 2. Certainly, we are entering the seasonally stronger quarters for these businesses, and we continue to see strength in all regions.

So, now let me turn the call to discussing earnings which starts on slide 8. Our GAAP operating income for the quarter was $405 million, which includes $48 million of charges related to the acquisition of ADC. Also included was $4 million of income related to the reversal of prior non-ADC restructuring charges. Of the $48 million of ADC charges, $18 million is cash related and $30 million are non-cash charges, primarily related to fair-value purchase accounting adjustments of inventory and backlog. I do want to highlight that these non-cash charges of $30 million are reflected in gross margin across the sales on -- in our GAAP income statements. In quarter 3, we do expect approximately $10 million of additional ADC charges, which will be primarily cash charges and in line with our original integration plan.

Adjusted operating income was $449 million, with an adjusted operating margin of 12.9%. Sequentially margins were down, as expected, primarily due to the impact of ADC and metal headwinds I discussed on the last call. In addition, our margins were down slightly from where we guided, due to the lower than expected sales in the consumer and Datacom businesses in our CIS segment.

Adjusted earnings per share for the quarter were $0.71, and this was up 11% from $0.64 in quarter 2, 2010. The improvement was driven by the leverage on our sales growth, the acquisition of ADC, and the benefit of share repurchases, which together more than offset the impact of higher metal costs and the $0.01 that we talked about relating to the Japan earthquake.

So, let's move to slide 9. And, starting with gross margin on the top half of the slide, our adjusted gross margin in the second quarter was 30.9%. As I stated, the GAAP gross margin includes the $30 million of fair-value purchase accounting adjustments that I just highlighted; and this 30.9% was in line with our guidance of 31%. In the third quarter, we do expect our gross margin to be about 30.5%, which will be down sequentially as we incur about 50 basis points of headwinds due to the impact of the reduction in sales and the inefficiencies caused by the earthquake in Japan. When you look at the Japan inefficiencies that we have, we have 3 factories in Japan that are dedicated to the Japanese market; and, we expect that, as this is a fluid situation, we will have inefficiencies that will create the flow-through on the sales to be a little bit worse than we typically would expect.

In the fourth quarter, we do expect our gross margin will be back above 31%, due to higher volumes and the benefit of our pricing actions that partially offset the raw material price increases that we've been experiencing this year. We also expect that in the fourth quarter we will see a reduced impact from the Japan earthquake on our gross margin.

Looking at the bottom half of the slide, operating expenses were in line with the guidance expectations of 5% for RD&E and approximately 13% for SG&A. Expenses were up $77 million year-on-year, driven primarily by ADC and also our increase in volume. In quarter 3, we expect that, as a percent of sales, our RD&E and SG&A will be similar to the quarter 2 levels.

Turning to slide 10, let me discuss the items on the P&L below the operating line. Net interest expense was $37 million in the quarter, compared to $32 million last year. The increase is due to ADC-related financing costs. Specifically, we issued $250 million of new debt for the acquisition, and we also had interest cost on the acquired ADC debt prior to completing the tender to repurchase. In quarter 3, we expect net interest expense of approximately $35 million.

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Other income, which relates to our tax sharing agreement, was $6 million in the quarter, which was below our guidance of $12 million as a result of the settlement of certain international shared tax matters. For quarter 3, I expect around $13 million. The GAAP effective tax rate was 20% in the quarter and the tax rate on adjusted income was 24%. The adjusted rate was slightly lower than the guidance rate of 26% due to the settlement of the shared tax matters I just mentioned. The key that I want to highlight is that the lower Other income and the lower tax rate offset each other; so, when you look at it, there is really no benefit to our EPS in the quarter versus guidance related to these items. And, for the remainder of 2011, we expect our tax rate on adjusted income to be approximately 26%.

So, let me turn free cash flow on slide 11. Our free cash flow in the quarter was very strong at $447 million, and this puts our year-to-date free cash flow at approximately $0.5 billion. With the progress year-to-date, we are increasing our 2011 free cash flow expectation to be in excess of $1.3 billion, excluding the ADC acquisition related spending. And this guidance is about $100 million higher than our prior guidance.

On working capital, receivables and payables are in good shape and we were at 65 days and 58 days respectively. On inventory, as we stated on the last call, we do expect to bring our inventories lower by the end of the year. Capital spending was $114 million in the quarter, up from prior-year levels of $81 million, and we expect capital spending for the full-year 2011 to be approximately 4% of sales.

Tax restructuring, excluding the ADC acquisition; cash costs in the quarter was $15 million and approximately $40 million year-to-date. For the full-year, we expect approximately $80 million of non-ADC cash restructuring. For acquisition-related cash restructuring for ADC, the spending in the quarter was $15 million and for the full-year we still expect $105 million. And we have spent about half of this amount year-to-date.

So, let's move to slide 12 that shows debt and liquidity. We ended the quarter with about $1.2 billion of cash. Uses of cash during the quarter included the repurchase of ADC convertible notes that were tendered during the quarter for $470 million and the return of capital of $306 million to shareholders, through dividends and the repurchase of about 6.8 million shares. We still have $570 million remaining on our repurchase authorization and, if we don't have any other strategic uses for the remainder of the year, we could see that we use that authorization up by the end of our fiscal year.

Couple things that happened after quarter end that I want to highlight; we did have an additional $88 million of ADC convertible notes tendered, and with this additional tender, our total debt will be about $2.65 billion. Also in April, we announced the completion of the sale of non-core patents acquired as part of ADC for $75 million. These proceeds will not be included in our quarter 3 free cash flow, but the sale demonstrates how we are working on maximizing the return on the ADC acquisition as we continue to work on the integration; and, certainly, the integration remains on track. So, with that, let me turn it back to Tom, who will cover the outlook.

Tom Lynch ***TE Connectivity Ltd - CEO***

Thanks, Terrence. If you turn to page 13, I will talk real quickly about our orders. As you can see from the chart, and as I mentioned earlier, our demand trends are strong in most of our businesses; of course, there is going to be a little bit of an offset to that -- a bit of an offset to that -- from the reduction in orders, primarily related to Japan. I think the key point on this chart is that these trends really give us the confidence around the increase in sales we expect in the second half ex Japan. So, the backlog is building and it's building pretty much across the board.

If you turn to slide 14, and walk through the third and fourth quarter outlook; we provided a little more detail here than we normally do, because there is probably more moving pieces, particularly with the Japan situation. But, to summarize Q3, we expect our sales to be in the range of $3.5 billion to $3.65 billion. This is an increase of 13% to 18% over the prior year and relatively flat with Q2 levels. This does include $320 million of revenues from ADC and, as Terrence mentioned earlier, the negative impact of about $135 million of revenue in Japan.

We expect adjusted EPS to be in the range of $0.68 to $0.74. This range is a little wider than normally due to the uncertainty around the effect of Japan, which we currently estimate to have a $0.09 negative impact. The reconciliation on the left side of the slide lays out the key elements. I think the real key point here is that, excluding Japan, we would be at a mid-point of around $0.80, which is right where we were a quarter ago when we gave our full-year guidance. That is what we were expecting; in the third quarter we -- this the quarter

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we expected to see the sales ramp. In fact, if you go back as far as when we did our original guidance in November, this is how we really expected the year to play out. A few puts and takes in there; but, overall, the year, with the exception of Japan, playing out the way we thought.

If you turn to the right side of the chart, we are providing an extra quarter's outlook here; again, to give you a little more granularity to understand the flow . We expect sales to be in the range of $3.8 billion to $3.98 billion. This is an increase of 22% to 27% over the prior year. And, we expect EPS to be $0.83 to $0.89, up from the mid-point of $0.71 in the third quarter. Now, this improvement from Q4 over Q3 reflects the benefits of the pricing actions that really start to take effect late Q3, a less impact from the Japan situation and our 53 week . And, we also expect our operating margins to back at that 14% range in Q4.

If you flip the page to page 15; a real quick snapshot of what all this means in terms of the full-year. I think the main point here is, despite the impact of Japan, we expect it to be a strong year with adjusted EPS growth of 16% to 21% . And, if you look at the reconciliation we have on the lower left-hand side of this page, you get a sense of the big levers in the business. I think the real positive thing here is you can -- you see the contributions of the volume, the ADC acquisition, and the benefits of our cash flow more than offsetting the metals cost increase this year and the Japan disruption.

And, then when you think about it, from the second half, we've got strong orders going into the second half, we've got the price increases going into the second half, and that is a day-to-day thing. You've got the contribution of $0.10 in the second half from ADC, and then you have another strong half of cash flow. So, this is enabling us to, despite the situation in Japan, have a nice pickup in earnings.

When you wrap all this up, I feel good about the earnings power of the Company . Several key earnings drivers that are very powerful for us this year, and we expect them to carry forward into the future, which is strong positions in markets with attractive growth prospects. We go through our portfolio, I think we feel good about our position in 90% of the markets we are in, both from the market drivers, as well as where we stand and the momentum we have.

We do need to improve in the consumer side, which is about a little less than 10% of our business. The operating leverage in the Company is better than it was several years ago, with all the restructuring and portfolio cleanup that you are familiar with. And we're running -- we're generating more cash in this business, which gives us the opportunity to do things like ADC or smaller bolt-on acquisitions that can contribute to EPS or return more capital to shareholders, and, as we mentioned, that's been about $400 million so far this year. So, with that, Operator, let's open

QUESTIONS AND ANSWERS

Operator

Thank you.

(Operator Instructions).

Our first question comes from Amit Daryanani. Please go ahead.

Amit Daryanani ***RBC Capital Markets - Analyst***

Yes, thanks a lot. I really appreciate the EPS bridge you guys provided, but I still have a question around the auto production. Could you just talk about the possibility of feasibly picking up this $3 million loss in December and through fiscal 2012 and, if you do do that, would we expect the same kind of 40% contribution margin on that pickup given we are seeing 40% so detrimental margins in the June quarter based on the guidance you provided from those lost units?

Tom Lynch ***TE Connectivity Ltd - CEO***

Yes. Thanks, Amit. I guess two parts to that question. The first part, we would expect demand to recover over time, particularly I think it is a little harder to call the in Japan demand, because of all the disruption in the country. We would expect that's going to take longer, so that the cars that are not sold there in the second half of our fiscal year, I think that 'll take longer to come back. But, we would expect,

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much like we saw after the big downturn two years ago in the auto industry, the pent-up demand is pretty resilient and comes back pretty fast as the production is there.

So, I would -- if we lose 3 million cars in the second half of this year, we would expect to get two thirds of that back in the first half of next year. I think that's what the experts are saying and we are talking to our customers that's what we would expect. I think you can expect the margin flow through of similar on the upside because we're not going to lay in any extra costs. So, what's really happening now is as the volume goes down, we're not taking people out of the factories in Japan, for obvious reasons . And, as it comes back, we wouldn't expect we're going to need to lay an extra variable cost to meet the volume. So, I would expect a similar flow through on those

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Amit Daryanani ***RBC Capital Markets - Analyst***

Got it, that makes a lot of sense. And, then, just on the com and industrial side, it looks like modular down about 280 basis points sequentially, can you talk about what drove that? And then the price increases you are implementing, could that help you in the segment because you do have a lot of consumer assets there where I imagine pricing is tougher to flow through?

Tom Lynch ***TE Connectivity Ltd - CEO***

Yes, margins were down. I think we expected about, we expected most of that because of what we saw in the mix of our business, I think there was a little worse than we thought because volumes were lower in consumer and Datacom especially. And I think Datacom is an industry, more of an industry issue although Datacom grew year-over-year wasn't as much as we thought consumer, we just don't have a strong position there.

So, yes a little more margin pressure than we thought, so you have less volume to offset the price erosion in that business in the metals. We do expect improvement by the fourth quarter. Datacom, again, would be more market demand whereas consumer hits us, establishing a little bit of beachhead in some of these markets that we're just not participating in today. So, our consumer business will take a little longer to improve, but, overall, we expect CIS margins to improve by Q4.

Amit Daryanani ***RBC Capital Markets - Analyst***

Perfect, thank you.

Operator

And, our next question comes from the line of Shawn Harrison with Longbow Research. Please go ahead.

Shawn Harrison ***Longbow Research - Analyst***

Hi, good morning. I just want to look at the September quarter in terms of maybe the factors driving revenues higher sequentially, knowing that it is typically a seasonally weak quarter for you at least in Europe, but the guidance suggests a significant ramp and volumes, some of that will be automotive coming back. But, maybe you could speak to the end markets where as you exit the fiscal year you have the most wind in your sails.

Terrence Curtin ***TE Connectivity Ltd - EVP and CFO***

Shawn, it's Terrence. A couple of things, first off, when you look at the fourth quarter guidance you are looking slide 14. Remember, we do have an extra week in this quarter. So, that's about $250 million and that is not included in the organic calculations. So, number one, you have to remember there is an extra week due to how our fiscal calendar and our fiscal year is.

Excluding that, what we see is remember Japan is improving, we do expect the Japan affecting quarter three to be $135 million, quarter four about $65 million. So, we do see some of that will offset your normal seasonal patterns and then we do, as we talk about in our CIS business, we do expect, based upon the trend we're seeing, that they will improve and their typical -- and that is the way they typically seasonally improve. So, really the factors are, remember we have an extra week, the Japan impact lessening, some of the rebound in the production coming back in auto, and, then, lastly, the CIS market. In the network solution market, we would expect that would be relatively flat Q3 to Q4.

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Shawn Harrison ***Longbow Research - Analyst***

In the NBN project of for network solutions is it more of a 2012 and beyond contribution?

Terrence Curtin ***TE Connectivity Ltd - EVP and CFO***

When you look at that contract, as Tom covered, it is a five-year contract, when you look at it will have very little contribution for this year. It will start to ramp next year. As the program really starts to roll. So, very little impact on this year.

Shawn Harrison ***Longbow Research - Analyst***

Okay and then as my follow-up question. Just on commodities, you had some price increases through some markets at the beginning of this calendar year. Looks like you may get some more pricing as the year continues to progress. Where do you think you'll be in terms of --

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Keith Kolstrom ***TE Connectivity Ltd - Senior Director IR***

Did we lose him?

Terrence Curtin ***TE Connectivity Ltd - EVP and CFO***

Operator?

Operator

One moment please.

Terrence Curtin ***TE Connectivity Ltd - EVP and CFO***

Okay.

Operator

The line is still open

Shawn Harrison ***Longbow Research - Analyst***

Can you hear me?

Keith Kolstrom ***TE Connectivity Ltd - Senior Director IR***

You dropped off.

Shawn Harrison ***Longbow Research - Analyst***

The question was basically a commodity recovery, you've been getting pricing --. Starting the calendar year, it looks like through out the calendar year's as well. Where do you think you will be in terms of price recovery? I know you have been targeting a higher ratio, do you think you will be toward that upper end of the ratio as you exit the fiscal year, exit the calendar year?

Terrence Curtin ***TE Connectivity Ltd - EVP and CFO***

When you look at that, yes, we do. So, right now the progress we have, as we talked on last call, was you all know that it takes about six months lag, so we did start that full price initiative starting last quarter, we do expect to start getting that recovery bigger impact as you can see on the walks that Tom walked you through in our fourth quarter, and it will be towards that 60% to 65% recovery rate that we mentioned before.

Shawn Harrison ***Longbow Research - Analyst***

Okay, thank you very much.

Terrence Curtin ***TE Connectivity Ltd - EVP and CFO***

Thanks, Shawn.

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Operator

You have a question from the line of Craig Hettenbach with Goldman Sachs. Please go ahead.

Craig Hettenbach ***Goldman Sachs - Analyst***

Yes, thank you and thanks, Tom, for all the color and detail around the impact to automotive. Taking a step back from automotive, can you just talk about the other end markets, how they are playing out today versus when you went into this calendar year? Areas that maybe you are seeing some upside to growth and other markets that might be lagging?

Tom Lynch ***TE Connectivity Ltd - CEO***

Sure. I would say for us, our networks business are a little stronger than we thought. We expected -- we saw the signs because of our RFP activity that they were going to pick up. And they had been, as you know, kind of soft for a few years, so we expected a pick up. And, I would say a little bit stronger there in energy telecom networks which is down for the big carriers and in enterprise. So, that's a positive I would say. You mentioned auto, auto's definitely a little bit stronger than we thought and we expect it to be pretty robust this year.

Overall, the Datacom business, which is selling to the companies that provide the gear that powers the Internet, that has been mixed for us, I think overall the year is going to be okay. But, probably a little slower than we thought and we attribute the first half of that more the -- that got hot in the middle of last year and I think we laid out that there's probably a little bit of inventory in the channel, not anything too over the top. So, I would say that one has been a little bit less than we would have thought and consumer a little less than we thought. We didn't have very high expectations because we know we knew where we were coming into the year on the platforms that were gaining momentum and we weren't very well-positioned, frankly, on the winning platforms. So, that is one that we knew was going to take us awhile to regain our momentum, but that has been a little softer. So, overall I would say revenues balanced slightly better, notwithstanding all the impact in Japan.

Craig Hettenbach ***Goldman Sachs - Analyst***

Okay. If I could just follow up on the consumer piece. Is that something that the strategy will be organically to improve that? Or is that indeed a strategy? And, could you address that through M&A as well?

Tom Lynch ***TE Connectivity Ltd - CEO***

I would say think of it as primarily an organic strategy. We have had intermittent success in that business over the last three or four years . I would say five or six years ago in the mobile side of it, we really did not have a position, and then we had a fair amount of success with two of the largest mobile phone suppliers. But, our product line wasn't broad-based enough.

We need to -- we have a nice road map now, but most of this is stuff that is just an extension of our normal connectivity. I would not expect -- you shouldn't expect us to do anything significant around M&A in this. I'd never say never, but we believe that there is attractive relative improvement just by executing

Craig Hettenbach ***Goldman Sachs - Analyst***

Okay. Thanks for that.

Tom Lynch ***TE Connectivity Ltd - CEO***

Thank you.

Operator

We have a question from the line of Jim Suva with Citi. Please go ahead

Jim Suva ***Citigroup - Analyst***

Thank you and congratulations, gentlemen, to you and your team for great results, especially considering the Japan challenges out there. And my view, the Japan issue, you guys have very much done a stellar job at clearing it all up, so maybe I will ask my questions on a different sub market or subsector.

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The first part of the question is two parts and then I will be finished is, on the sub sea communications, looking out you've got some nice new wins there. Can you help us understand, it is tough to know what is rolling off the pipe as far as what is coming onto the pipeline, about what we should expect there for linearity for the next few quarters or maybe even 12 months or so about folding in new contracts versus rolling off?

And, then, the other part of the question is on the consumer devices, definitely you've done very well on other segments, but this segment, to be honest, appears that either a, you're losing so much share, do you plan to exit and close it down? Or how do you plan to fix it or what's really the recovery plan, because down 15% year-over-year, one's got to say that the market is no where close to accepting that as what organic growth should be. What is the plan going into the consumer segment that you see?

Tom Lynch ***TE Connectivity Ltd - CEO***

Let me hit that one first and talk just a little bit about it. No, absolutely. When you look at the total market and how it's moved, we have lost market share. I would say the biggest part of that is because of the big horses we were riding are struggling in the market a little bit, but that is what it is. And, as I mentioned earlier, not a broad enough product line.

No, we're committed to the business and the reason is Jim, it's just another flavor of our core connectivity business. I think if this was something totally different that we did, we might think about it differently, but we ought to be able to do a better job of leveraging our scale and leveraging our resources in this business to compete. So, I would say the only good news about it is, as bad as we feel about our performance right now it's all upside in the way and all we have to go and make it happen.

That's not going to happen overnight, but, like we did when we really got broke back into it after being out of it years ago, we feel like we know how to do it. And, we've got much more focus on the business in the last six months from a structural point of view. So, we feel good in terms of the road map and things like that, but we've got to get them into the customer and sustain them in the customer. I think that's the key in this business, you've got to be broad based, similar to the way we are in auto, we are on every car. So, we ride the benefits of that. We need to be broader-based in this business. I will let Terrence answer the SubCom question.

Terrence Curtin ***TE Connectivity Ltd - EVP and CFO***

Yes, Jim, on SubCom when you look at it like you mentioned or I mentioned on the call, we were just awarded and it got funded. The Singapore to Japan contract, that really firms up our current year number and that will roll over into next year. We are also completing some projects in the Gulf, currently. But, what's nice right now is the $600 million to $700 million for this year will put you at about $160 million of revenue for the next couple of quarters.

When you look at next year, right now, our expectation based upon the number of projects we are working on that are in Asia, around Africa, also some connectivity to South America, I would say right now we would still be in the $600 million to $700 million range for next year. But, the opportunities are still driven around hooking up the emerging markets, the need for broadband everywhere and, in that regard, we see a good stable level of mount both for this year and next year.

Jim Suva ***Citigroup - Analyst***

Great, thank you. And, again, congratulations on a difficult Japan situation, you guys have done well working through.

Terrence Curtin ***TE Connectivity Ltd - EVP and CFO***

Thank you, Jim.

Operator

We have a question from the line of Wamsi Mohan with Bank of America. Please go ahead.

Wamsi Mohan ***BofA Merrill Lynch - Analyst***

Hi, thank you, good morning . Can you talk a little bit about the process that you are going through to estimate the Japan impact? So, how far down the supply-chain do have visibility and what products are you hearing that are causing some of the auto production

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Tom Lynch ***TE Connectivity Ltd - CEO***

Sure. As you can imagine, we have a pretty extensive crisis management process around this. The big part of it based with our leadership team in Japan, which is a very seasoned leadership. So, we, every other day literally, between our automotive and our CIS businesses, because that's where this impact is, we get a read from our team in Japan on what they're seeing.

And, I'd say there is really three big parts to it, there is our end customers and are they going to be able to ship products, which is where I would say the part that not that any of this is easy, but to get our arms around, because customer a or customer b says, we're not going back to full production until such and such, or this plant is closed for the next three weeks we know how much we are scheduled to ship them. So, that's a big part of this.

The second piece is our own supply-chain, which the good news is we have been very fortunate there as well, that it is not too disruptive. We did have some suppliers that were, unfortunately, knocked out and we did have some single source parts, but that is a pretty small part of that I would say. Of our $225 million, it is single digit percent of that.

And, the third piece, which is the hardest to really get our arms around, and, as I've talked to other CEOs, it is the hardest time they are having is the extended supply-chain. So, it's the supplier who supplies to another supplier, who supply to one of our customers. We may not have a problem delivering a part to them, but two levels down in their supply-chain, they might have an issue, and the trickiest part is there's always inventory in the channel, so we're only a month into this approximately, there's inventory to cover that. So, I think we all feel like we don't really know what we don't know .

We've put a number on that based on the best information that we have and that's how we come up to this $225 million, I think it's fluid for sure, Wamsi, we hope it's better than that. It could be worse than that. I would say, candidly, the impact on order rates isn't that bad yet, but we also know from what our customers are saying, it's going to probably get worse before it gets better.

So, it is elusive. This is our best way and then the way we sort of take a step back, take a big picture, do a sanity check around it is we do plus or minus $75 million to $100 million a month in Japan. So, that seems outlandish that we could have a two-month disruption over the next six months for all these customers that we serve in Japan when you consider the power outages and everything else, no. That doesn't seem that crazy to think about it that way, so that is really how we try to come into a number that we think is reasonable, that is not wildly optimistic or wildly conservative. Time will

Wamsi Mohan ***BofA Merrill Lynch - Analyst***

Okay, thanks for the candid assessment. I appreciate that. And, then what sort of dollar content assumptions are you making for Japan and outside Japan? And, lastly, off the $0.09 and $0.14 hit, can you quantify at an EPS level, how much of that is auto related versus non-auto related?

Terrence Curtin ***TE Connectivity Ltd - EVP and CFO***

Yes, Wamsi, when you look at it certainly as you know, our content for region is very different. So, when you look at the content per vehicle, we did tell you we were going to be impacted about 3 million vehicles, the bulk of that in Japan, the minor part outside of Japan based upon the customer feedback Tom mentioned. So, that is built up based upon an OEM-based view of our content in their vehicles, so it is done by program.

When you look at the auto element versus the non-auto element, right now, we do not expect anything, any impact to Japan on our network solutions segment. So, it is in automotive and our CIS business and when you look at that, of the $220 million we quoted, about 65% of that will be in our automotive business and the remainder will be in the CIS business.

Wamsi Mohan ***BofA Merrill Lynch - Analyst***

And, Terrence, is it the same on EPS basis?

Terrence Curtin ***TE Connectivity Ltd - EVP and CFO***

Correct.

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Wamsi Mohan ***BofA Merrill Lynch - Analyst***

Okay, thank you so much.

Terrence Curtin ***TE Connectivity Ltd - EVP and CFO***

Thanks, Wamsi.

Operator

We have a question from the line of Amitabh Passi with UBS. Please go ahead

Amitabh Passi ***UBS - Analyst***

Hi, thank you. Sorry guys, not to harp on this, but still trying to understand the dynamics in your CIS segment. I understand the weakness in consumer, yet it's about 15% of segment sales and I am surprised to see a 300 basis point negative impact of margins quarter-over-quarter. So, I was hoping you could just help us get some incremental color on just what's driving this or what appears to be sort of a disproportionate impact to your margins?

Terrence Curtin ***TE Connectivity Ltd - EVP and CFO***

When you look at it, Amitabh, you have to look at we did expect our margin in CIS to be down as Tom mentioned, and, really, when you look at it is, when we were coming out and we came into the year, we were ramping and expected of faster increase in both consumer and Datacom than what we have been experiencing. Those are markets that are impacted by metals, there are also markets where you do have price erosion, so, right now, you are getting that impact magnified in the margin until the volume as well as some of the pricing actions come into play.

So, really what is happening is we did expect this, we do expect the CIS business exiting quarter four to be around 14%, but, really, what you have is we ramp for a more optimistic picture that is taking slower to come through and then certainly the consumer element, Tom added a lot of color to already, which also creates some pressure.

Amitabh Passi ***UBS - Analyst***

Okay, thanks. And, then just as my follow-up. It's interesting is if I adjust for the impact of Japan, it seems like you actually raised full year guidance, maybe just additional color in terms of what you think the drivers are positively impacting your full year guidance net of Japan?

Tom Lynch ***TE Connectivity Ltd - CEO***

Yes, I'd say if you go actually and look at one of these bridges that we talked to over there, a little bit stronger volume in other markets, probably a little higher metals than three or four months ago. And, a little bit of a benefit from exchange rate, so when you net it all out, yes, I think we say $0.14 down from Japan and our midpoint is off $0.11, so slightly better, yes, you're right.

Amitabh Passi ***UBS - Analyst***

Okay, thank you.

Operator

We have a question from the line of Steve O'Brien with JPMorgan. Please go ahead.

Steve O'Brien ***JPMorgan - Analyst***

Hi, thanks. Could I get a little bit more elaboration on the contribution margin assuming, assumed in the reduction in Japan revenues? Are there additional expenses that related to the crisis management actions that are included in the EPS impact? Things above and beyond just lost volumes?

Tom Lynch ***TE Connectivity Ltd - CEO***

No, there isn't any additional cost like that. I think the simplest way to think about it, Steve, is our margin right now is roughly 30%, 30%, 31%, so you are going to at least have that. We're not really taking very much variable cost out of these plants in Japan, so the people are still there for a full week, not a partial week for a lot of reasons, right. And, because we think the short term, we want to be ready to

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produce. So, if you had a more of a sustained downturn in a business, you'd adjust your labor costs quickly and all your variable costs quickly.

So, this assumes more than normal inefficiencies, we think that's going to be short-term, but that is why you would see a flow through, I think what you're basically saying is why isn't it just 30%, 33% something like that, your average flow through, because were not taking any other costs out.

Steve O'Brien ***JPMorgan - Analyst***

Great, I appreciate that Tom. And, just a quick point of clarification, Terrence, you mentioned the $75 million in patents hold to ADC are not included in fiscal Q3 cash flow. Are they included in that overall fiscal 2011 full-year cash flow?

Terrence Curtin ***TE Connectivity Ltd - EVP and CFO***

No, they are not. That will not be -- we will not treat that is free cash flow. So, when you look at neither in quarter three or in quarter four, so the $1.3 billion I guided and we mentioned does not include that $75 million.

Steve O'Brien ***JPMorgan - Analyst***

Great, thanks for that.

Operator

I'm sorry, we have a question from the line of Sherri Scribner with Deutsche Bank. Please go ahead.

Sherri Scribner ***Deutsche Bank - Analyst***

Hi, thank you. I wanted to ask a little bit about the operating margins in the transportation segment . They were very good this quarter and I'm wondering if that's all related to the higher volumes or if there is something else in that number? And, then, with the declines you are expecting in that market, what directionally do you see -- clearly I think those margins go down, but, directionally, does it go back to sort of the 10% level or lower than that or just wanted to get some detail

Tom Lynch ***TE Connectivity Ltd - CEO***

Hi, Sherri, this is Tom. This team has done a great job, did a great job managing through the downturn, and as you know, we're very aggressive getting our capacity in that business in order probably a little faster than we otherwise would've without that downturn, so that helped a lot.

So, we do believe this is kind of the right level of margin and we will try to improve it, of course. It is coming off a little bit in the third quarter because of the Japan impact, again you're taking $100 million of automotive sales out, and, in there, we also have aerospace, defense, marine business which is our highest margin business in the Company and they are performing well, in addition. So, you will see a little dip in -- you will see some dip in transportation margin in Q3 and then we would expect that begin to recover and move back up again in Q4.

Sherri Scribner ***Deutsche Bank - Analyst***

Okay, so these levels are sustainable?

Terrence Curtin ***TE Connectivity Ltd - EVP and CFO***

Correct.

Sherri Scribner ***Deutsche Bank - Analyst***

After the step? And, then just to clarify for the -- I think in past you expected global vehicle production to be about 76 million and I think you are taking 3 million out of that, so should we think about global for the year, global production for the year being about 73 million, is that the way to think about it?

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Terrence Curtin ***TE Connectivity Ltd - EVP and CFO***

You look at global vehicle production, when you look at it in the second half of the year, we do see that the second half will come down by the 3 million vehicles. I would say people have restated the first six months of vehicle production up a little bit, Sherri, so it does get a little bit confusing . But, when you look at it, it's right now going to be around 75 million vehicles for the year is what the experts say on our fiscal year basis. But, some of the clumsiness with the math is they increase the first and second quarter by about 1 million units

Sherri Scribner ***Deutsche Bank - Analyst***

Okay, great thank you.

Terrence Curtin ***TE Connectivity Ltd - EVP and CFO***

Thank you.

Operator

We have a question from the line of William Stein with Credit Suisse. Please go ahead.

William Stein ***Credit Suisse - Analyst***

Thanks. First, just a reminder or clarification, can you just to level set models again, can you remind us what the long-term operating model is of the Company for the mantra on operating margins at revenue?

Tom Lynch ***TE Connectivity Ltd - CEO***

Sure. As you know, when we went into the downturn, we had our boat 12 at 12 goal, the good news was we really got that to about 14%, a little bit over the $12 billion level and then kind of reset it 15% at $14 billion of revenue, excluding ADC. Because ADC is going to have a margin rate drag on it, as you know, because we picked that business up at mid-single digits. We will go out at the end of this year we expect to be in double digits and then by the end of next be closing in on our average company margin.

So, for the non-ADC piece of the business, we still believe, even though metals are a little higher, quite higher than when we set this target that this is still a business that we should be able to get to the 15% margin range in the $14 billion, non-ADC business range. So, a little room to improve in the margin.

William Stein ***Credit Suisse - Analyst***

Great. And, then, one thing that we have not heard you talk about as it relates to Japan and in particular in light of the strong bookings, is an effort to secure supply. You can imagine that some OEM's might place orders for parts on the worry that they might not get supply. Have you contemplated that in your guidance, have you seen any of it explicitly or do you suspect it of happening and how do you expect that the play out over the next quarter two?

Tom Lynch ***TE Connectivity Ltd - CEO***

In other words, a little bubble?

William Stein ***Credit Suisse - Analyst***

Hoarding component.

Tom Lynch ***TE Connectivity Ltd - CEO***

Like an ordering bubble I think, Will, is what you are talking about? I'd say we see a little bit of that right now, but not really significant. I think $10 million, $20 million of a little extra ordering. We are watching for that because I think we're certainly mindful that it wouldn't be unusual for people to say I'm going to order more just in case, so we see a little bit of that, but we have not seen a lot of that right now.

William Stein ***Credit Suisse - Analyst***

And, just one final one if I can. Can you talk about your appetite for additional M&A as you digest the ADCT deal?

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Tom Lynch ***TE Connectivity Ltd - CEO***

We think there's a number of areas where we could strengthen the Company through M&A. We have a fairly robust pipeline. We have been building this for several years after not being in that business so to speak for a long time. And, last year, we made a couple of, in addition to the big one in ADC, we made a couple of small technology acquisitions that have really strengthened our fiber connectivity capability. So, we're always on the lookout for that. I think the ADC types are going to be few and far between, primarily because there are just not that many out there like that.

So, I think our priorities will be to number one, add technology through bolt-ons and then where can we had product lines that we don't have in some of our -- we've talked in the past around harsh environment, industrial energy types of businesses. So, we clearly think that, given our cash flow, that is a good way to build value in the business if we can find the right opportunities. We passed a lot more than we've decided to do, because it's got to fit our value proposition and, fundamentally, we feel that there's an awful lot of opportunity to improve this Company organically, both by organic growth through the broad range of technology and product lines we already have, as well as continuing through the P&L. So, it's going to be in our mix for sure, Will. I guess that's the way I would say it, but nothing imminent right now of any size.

William Stein ***Credit Suisse - Analyst***

Okay, great. Congrats, thanks.

Tom Lynch ***TE Connectivity Ltd - CEO***

Thank you.

Keith Kolstrom ***TE Connectivity Ltd - Senior Director IR***

Operator, I think we have time for one more call if there's anymore.

Operator

Okay, we do have one more. We have a question from the line of Amitabh Passi with UBS. Please go ahead.

Amitabh Passi ***UBS - Analyst***

Thank you. I just had a follow-up question. Within your service provider sub segment of network solutions, can you just give us an update of your pipeline for incremental fiber to DX opportunities? We've heard about NBN, I think you've mentioned Telnext, and we have also heard [Rumley's] and Telefonica might be looking to do something more. Just an update on what you're seeing globally and where you think we might see incremental contracts coming through?

Tom Lynch ***TE Connectivity Ltd - CEO***

It's hard to get specific on things that haven't happened for obvious reasons, because the customers don't really want us to talk about them yet. But, I think we're pretty bullish on the pipeline, a lot of activity. I've been out over the last couple months to a couple of the really big customers, and when you just look at the data that's being demanded, now that everybody is getting tablets in SmartPhones, it's taxing the system and while a lot of it is wireless broadband, you need quite a wired infrastructure, fiber infrastructure, to support that.

So, we saw that our networks businesses were up 20% year-over-year and our telecom, non-ADC portion of that, just run apples to apples because I think that is the best indicator, was up 30%. Our last year wasn't a robust year, but the spending is increasing and we see a lot of activity in Asia-Pac like NBN, a couple of other big ones that RFPs are in the works down that way and we see a lot of activity in Europe. Both those areas have much less fiber in the network than the US does. Although we expect activity to be picking up again in the US, so that growth is really driven without much US growth in it, so we think it's coming into a good cycle for this business.

Amitabh Passi ***UBS - Analyst***

Tom, just any thoughts on China? Do think that's an opportunity or do think the market is still too tough?

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Tom Lynch ***TE Connectivity Ltd - CEO***

It's an opportunity that's tough. The way that I would put it. We do have a decent beachhead now through the acquisition, but infrastructure in the big emerging markets is probably amongst the toughest businesses. But, we've good products, we have local products and combining ADC and ourselves gives us a more robust product line there. So, that's part of our growth assumption .

We're not counting on extraordinary success there to drive this business. We're counting on being there and capitalizing on high market growth, being a player, but we don't really expect to have anywhere near the kind position we do in Europe or the US, or Latin America. Because it's a high-growth, it will

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Amitabh Passi ***UBS - Analyst***

Thank you.

Tom Lynch ***TE Connectivity Ltd - CEO***

Thank you very much, everyone.

Keith Kolstrom ***TE Connectivity Ltd - Senior Director IR***

Thanks for joining our call. Please feel free to call the IR department with any questions you might have during the day. Thank you

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Operator

Ladies and gentlemen, this conference will be available for replay after 10.30 AM Eastern Time today until April 28 at midnight . You may access the AT&T executive play back service at any time by dialing 1-800-475-6701 and entering the access code 193182. International participants may dial 1-320-365-3844. Again, those numbers 1-800-475-6701. International 1-320-365-3844. Access code 193182 . That does conclude our conference for today. Thank you for your participation and using AT&T executive teleconference service, you may

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PLACEHOLDER TRANSCRIPT

Q3 2011 TE Connectivity Ltd Earnings Conference Call

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the TE Connectivity reports fiscal third quarter results conference call. At this time, all participants are in a listen-only mode. Later, we will conduct a question and answer session. Instructions will be given at that time. Should you require assistance during today's call, please press star zero. As a reminder, this conference is being recorded.

I would now like to turn the conference over to our host, Mr. Keith Kolstrom, who is the Senior Director of Investor Relations. Please go ahead.

Keith Kolstrom ***TE Connectivity Ltd. - Sr. Director, IR***

Good morning. Thank you for joining our conference call to discuss TE Connectivity's third quarter results for fiscal year 2011, and our updated outlook for the full year 2011. With me today are Chief Executive Officer, Tom Lynch, and Chief Financial Officer, Terrence Curtin. During the course of this call, we will be providing certain forward-looking information, and we ask you to review the forward-looking cautionary statements included in today's press release. In addition we will use certain non-GAAP measures in our discussion this morning, we ask you to review the sections of our press release and the accompanying slide presentations that address the use of these items. The press release and related tables along with the slide presentation can be found on the Investor Relations portion of our website at TE.com.

Finally for participants on the Q&A portion of today's call, I would like to remind everyone to please limit themselves to one follow-up question, to make sure that we are able to cover all questions during the allotted time. Now let me turn the call over to Tom for some opening comments.

Tom Lynch ***TE Connectivity Ltd. - CEO***

Thanks, Keith and good morning everyone. I will cover the highlights of Q3, a little bit of overview of Q4, and then I will turn it over to Terrence, and he'll walk us through the details. If you can please turn to slide three now. This was a very good quarter for us. Sales of $3.7 billion were up 21% versus last year, and were better than guidance, due to a less than unexpected, unfavorable impact from the Japan earthquake, and the strong year-over-year growth was driven primarily by 5% organic growth that more than offset approximately $70 million of less sales due to the situation in Japan, and also a significant contribution from the ADC acquisition of about $300 million in sales.

Our adjusted earnings per share of $0.78 is a new high for us, and is up from $0.70 last year. We exceeded our guidance range primarily because of the lesser impact from Japan. We expected a $0.09 unfavorable impact and turned out to be $0.05. And really there, both our customers and our suppliers as well as our team did a terrific job in recovering faster than I think that anyone thought was possible at the time.

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We also had another strong cash flow quarter generating $340 million of free cash flow, and we returned the entire amount to shareholders in the form of dividends and share repurchases. As I think you know our increased dividend rate kicked in this quarter. Overall our performance in the quarter was driven primarily by continued strength in our automotive business, where we continue to see double-digit growth in all regions except Japan in Q3. Continued strong demand in our telecom networks business in every region, and the contributions from the ADC acquisition which as you know are part of our networks business, and almost now fully integrated in the telecom business. These positives more than offset the continued softness in CIS, which we expected.

To highlight a little our network solutions business this segment had a very strong quarter generating $1 billion in sales, and delivering adjusted operating margins of 14%. And the ADC integration continues to progress very well. We are delivering the synergies we outlined a year ago, and the whole integration, I couldn't be happier actually, it is coming along very well, and we feel just about like one company already.

Orders during the quarter were $3.9 billion and $3.6 billion if you exclude our Subcom business. Our book to bill was 1-to-1 excluding Subcom. Despite the macro uncertainty right now, our orders in automotive, aerospace, energy and telecom were solid throughout Q3, and have continued this way so far in July, and so all four of those businesses have been running double-digit order growth. The Data Comm business which we thought would be on track by now continues to be softer than expected, and we also did see a little softening in the distribution channel late in the quarter.

For the fourth quarter our guidance is essentially unchanged, and we expect adjusted EPS in the range of $0.84 to $0.88, and just a reminder our fourth quarter has an extra week, and without this extra week we estimate adjusted earnings per share would be $0.79 to $0.83. This is another strong quarter year-on-year growth compared to the $0.72 we delivered last year. And for the full year we are increasing our annual guidance range to $3.06 to $3.10 of adjusted EPS, which is a little over 20% increase compared to the $2.54 we delivered in 2010. The increase in our guidance is due to the better than expected Q3 performance. So we are basically holding Q4 at our prior guidance level.

So with those highlights I will turn it over to Terrence, and he will walk through the quarter in more detail.

Terrence Curtin ***TE Connectivity Ltd. - CFO***

Thanks, Tom. Good morning everyone. Let me start by covering sales performance. If you could please turn to slide four. Total Company sales of $3.7 billion were up 21% year-over-year with growth across all segments and geographies. Organic growth which excludes the effects of currencies and the ADC acquisition was 5% in the quarter, and was driven by our transportation and network solutions segments.

Geographically we had organic growth of 12% in EMEA, 9% in the Americas, and Asia was essentially flat. And certainly this Asia growth rate was impacted by the Japan earthquake, which reduced our sales by $68 million in the quarter. The Japan impact on our organic growth rate on an overall basis was approximately 200 basis points, and the impact on Asia was about 500 basis points. ADC sales in the quarter were $311 million, or about half of our overall growth. And we also did benefit from currency translation which increased overall growth by about $200 million. On a sequentially basis sales were up 7% overall, and up 5% organically.

Now let me give you some highlights of our key markets in each of our segments, and as I discuss these all changes that I will discuss will be organic. Please turn to slide five. And I will cover the Transportation Solutions segment first. In this segment, sales increased 11% versus the prior year, and were up 2% sequentially. In the automotive market, our sales increased 11% versus the prior year, and were flat sequentially. Year-over-year sales were up 17% in EMEA, 16% in the Americas, and flat in Asia driven by the impact in Japan. In fact, if you go into China our sales were up 11% in China.

From a production perspective, global production was down 6% sequentially to about 18.5 million units in the quarter, which was flat with the prior year, and our sales growth again was above auto production due to the electronic content increase in vehicles, increased share, as well as Tier one customers building inventory in anticipation of the Japan earthquake recovery. We continue to see end demand trends outside Japan remaining strong across all regions, and we believe quarter four global auto production should be approximately 19 million vehicles, which would equate to a year-over-year production growth of 6%. This production number includes some increase from

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the production recovery following the earthquake, offset by the normal seasonal shutdown that we see in the fourth quarter in Europe.

In the Aerospace and Defense and Marine Market sales were up 12% versus the prior year, and up 13% sequentially. Growth was driven by continued improvement in the commercial aerospace as well as the oil and gas markets, as well as some increased share. For the Transportation Solutions segment overall, we expect year-on-year double-digit organic growth in our fourth quarter.

So please turn to slide six. In our Communications & Industrial Solutions segment sales declined 1% versus the prior year, and increased 6% sequentially. Strength in the Industrial and Touch Solution markets were more than offset by declines in our Consumer Devices business, and about $35 million in lost sales due to the Japan earthquake. We do expect some additional impact from Japan in our fourth quarter in this segment, as some customers have yet to fully recover, causing delays in certain programs.

Let me get into certain markets in the segment. In the Industrial Equipment market sales up 3% versus the prior year, and 5% sequentially due to the demand for factory automation, medical, and rail projects. We do expect this market for us to have similar sales next quarter as we had in quarter three. In the Data Comm market, which includes sales to Communication Equipment, Server, and Storage market, our sales were basically flat versus last year, and increased 7% sequentially driven by new program wins and spending on wireless infrastructure. As Tom mentioned this market continues to recover more slowly than we thought as we entered the year and based upon current order trends, we expect results similar to quarter three levels in our fourth quarter.

In the Consumer Device area, revenues were down 18% versus the prior year, and basically flat sequentially. The year-over-year sales decline continues to be due to customer mix and our relatively small position in smartphones, but revenues did stabilize versus quarter two. While this market, and while this business has clearly underperformed its market, we are encouraged by recent program wins and improved relationships with key customers. In quarter four, we expect the Communication & Industrial Solutions segment revenues to be similar to quarter three levels, which will be a low single-digit organic decline year-on-year.

So let's turn to slide 7 to cover network solutions. For the segment total sales were up 64% including ADC sales of $311 million. On an organic basis sales in this segment were up 7% versus the prior year. In the Telecom Networks markets our sales were up 24% organically versus the prior year, driven by the continued acceleration of investment in fiber networks. The growth that we experienced organically was driven by Europe, South America and China. This growth is well above typical seasonality, and we expect double-digit organic growth year-over-year in quarter four as well.

Sales for the Energy market up 13% versus the prior year with double-digit growth in all regions, as utility investment continues to recover around the world. In the Enterprise Networks market our sales increased 6% versus the prior year, due to increased data center spend globally, and growth related to infrastructure build-outs in emerging markets. These positives are continuing to be offset by a tough commercial construction market. And finally in our Subcom business as expected sales declined 14% versus the prior year.

Our bookings in the quarter were very strong at $280 million, which includes network upgrades, projects for the oil and gas market, as well as the approximately $180 million SJC contract, which is a system between Singapore and Japan that we announced on our last earnings call. We continue to by active in a number of bids and contracts in process, and we expect full year 2011 sales of approximately $600 million. Overall for the segment in quarter four we expect that the sales will be up mid-single digits organically year-over-year, and in addition ADC will contribute about $300 million. This is down slightly compared to quarter three primarily due to seasonality in our European markets.

Now let me cover our earnings which start on slide eight. Our GAAP operating income for the quarter was $471 million, which includes $12 million of charges related to the ADC acquisition, and $5 million of charges related to non ADC restructuring. Adjusted operating income was $488 million, with an adjusted operating margin of 13.1%. Margins were higher than we guided primarily due to the strong margin performance in our Network Solutions segment, and the reduced impact from the Japan earthquake. We do estimate that the Japan earthquake impacted our margin by about 50 basis points in the quarter.

Adjusted earnings per share for the quarter were $0.78, and this is up 11% from $0.70 in quarter three 2010. The improvement was driven by volume, the acquisition of ADC, and the benefit of share repurchases, which together more than offset the negative impacts of higher

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metal costs and the Japan earthquake. We estimate that the impact of the Japan earthquake was a decrease in our earnings of approximately $0.05 per share in the quarter versus the guidance we gave last quarter of a $0.09 impact.

Turning to slide nine, and if you look at the top half of the slide which includes gross margin, our adjusted gross margin in the third quarter was 30.2%, which was down as we expected from about 31% last quarter, and in line with our guidance. In the fourth quarter we expect our gross margins to improve to 31%-plus, as the pricing actions that we have initiated take hold, and the lessening impact in Japan. This guidance is consistent with what I said on the last call.

If you look at the bottom half of the slide, operating expenses as a percentage of sales were slightly better than we guided. Expenses were up $118 million year-on-year, driven by the increase in sales, the addition of ADC, and the continued investment in our Research & Development programs. For quarter four, we expect as a percentage of sales RD&E will be about 5% and SG&A of about 12.5% which is in line with our longer term margin targets.

So let's turn to slide 10 so I can discuss items on the P&L below the operating line. Net interest expense $35 million compared to $34 million in the prior year, and in quarter four we expect that net interest expense will be approximately $36 million. Other income net which relates to our tax sharing agreement was an expense of $5 million due to the settlement of a portion of our shared tax obligations. This partial settlement also drove a lower GAAP effective tax rate of 17% in the quarter. If you adjust for this the adjusted other income was $9 million, which is slightly lower than guidance, and for quarter four I expect approximately $13 million of other income.

The GAAP effective tax rate was 17% in the quarter and the tax rate on adjusted income was 25%. I would highlight that the lower other income and the lower tax rate essentially offset each other, so there is really no benefit to adjusted earnings per share versus our guidance. In quarter four we expect a tax rate on adjusted income of approximately 26%.

Now let me cover free cash flow on slide 11. Our free cash flow in the third quarter was $340 million in approximated or adjusted net income. With the year-to-date performance we continue to expect 2011 free cash flow to be in excess of $1.3 billion excluding the ADC acquisition related spending of $105 million. On working capital we made solid progress in the quarter as both inventory and receivables were each down 2 days sequentially while payables were up 2 days. Overall we feel good about the current working capital numbers. Capital spending was $144 million in the quarter, up from prior year levels of $92 million. We expect the capital spending for the full year will be approximately 4% of sales, which is at the lower end of our long-term spending range of 4% to 5% of sales. And during the quarter we had $46 million of proceeds from the sale of Property, Plant & Equipment, and this was driven primarily due to the closure of the sale of the former ADC headquarters.

Now let me go to slide 12 to cover debt and liquidity. We began and ended the quarter with $1.2 billion of cash. During the quarter our free cash flow of $340 million was essentially returned to our shareholders through dividends and the repurchase of 7.4 million shares. $79 million of dividends paid during the quarter reflects the recent 12.5% increase in our payout. Other sources and uses of cash in the quarter were during the quarter we did complete the sale of the noncore ADC patents that we covered last call, and that generated $68 million of proceeds, and we also used $88 million of capital to tender legacy ADC debt.

Finally, during the quarter we entered into a new five year $1.5 billion revolving credit facility, which replaced the existing facility that was scheduled to mature in 2012. We are pleased to have this facility in place, because it continues to provide us with a very strong liquidity position.

So let me cover the order trends and our outlook, and if you could please turn to slide 13. Orders were solid in quarter three and as you can see from this slide, the book to bill was 1, if you exclude Subcom in all of our segments. Really when you see the order trends that we are experiencing, and as Tom mentioned as we exit the quarter, Transportation and Network Solutions segments continue to be very strong, but we have seen some softness in the CIS segment.

Let me turn to slide 14 to cover the outlook. For the fourth quarter, we expect our sales to be in the range of $3.9 billion to $4 billion, and this is an increase of 24% to 28% over the prior year. This does include approximately $300 million of revenue from ADC, and as Tom mentioned we do remind you that we do have the extra week in the fourth quarter, which we estimate will be $240 million of revenue,

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and is included in this guidance.

On an organic basis which excludes the extra week and the ADC acquisition, organic growth would be 3% to 6% year-over-year, and this organic growth does include a negative impact of $35 million from the Japan earthquake. Our quarter four earnings per share are expected to be $0.84 to $0.88. This reflects the benefits of our pricing actions, the improving situation in Japan, and the additional week in the fourth quarter. As with last quarter, we have included the year-over-year EPS reconciliation at the bottom of the slide, so you can see the moving parts.

Turning to the full year, sales are expected to be $14.3 billion to $14.4 billion, this is an increase of 18% to 19% compared to the prior year. ADC sales for the full year expected to be about $950 million, and provide 800 basis points of our growth. Organic growth without ADC and the extra week is expected to be 6% to 7%. From an earnings per share perspective we expect $3.06 to $3.10 per share, and this is an increase of 20% to 22% over fiscal 2010 earnings per share of $2.54. This is a very strong earnings growth when you consider the headwinds and earnings from both the Japan earthquake and the metals increase that we have experienced that you can see on the lower right-hand corner of the slide. Metals net pricing is a $0.14 headwind, and Japan a $0.08 headwind.

Just finally I believe when you look at this, the earnings power of the Company is really starting to gain momentum when you look at this 20% earnings per share growth year-over-year. With this, operator, let's open it up for questions.

QUESTIONS AND ANSWERS

Operator

Our first question comes from the line of Amitabh Passi with UBS. Please go ahead.

Amitabh Passi ***UBS - Analyst***

Thank you. Tom, perhaps the first question for you, I think in the press release you alluded to increasing levels of macro uncertainty, just curious maybe you could give us a sense of what you are hearing or seeing from customers perhaps across geographies, and as you look over the next six to nine months your general thoughts on where you think there are probably some upside/downside concerns?

Tom Lynch ***TE Connectivity Ltd. - CEO***

Six to nine months is a long time out, but I will give you my best shot. From one perspective as I think we discussed throughout this recap here, if you look at two of our three segments, orders are strong in the infrastructure rebuild arena, or whether it be telecom or enterprise or energy, and for sure in automotive. And the signals from and I have been out to a lot of customers in the last couple of months, the signals from the automotive customers are very bullish. Now I know they want us to make sure we are ready with the production, because when things bounce back quickly a year and a half ago the whole supply chain was catching up, so we have to filter all of that. But I do believe that they are really bullish about next year, and the industry has been publishing numbers that are fairly bullish in terms of growth next year. Right now everything we see supports continued strength in automotive and continued strength in network.

The CIS network is really mixed into three broad things. We are strong in the Data Comm business, we are well positioned there, we have a lot of strategic momentum with design-ins, but the market as you can tell from following the big companies that provide the routing and the infrastructure and the services, is really kind of all over the place. It is hard to discern a trend. For us it is going a bit sideways.

Industrial is solid for us. It has been solid all year in terms of order growth. A little higher than normal growth. Slowed down a bit in the last few weeks, but we think that is more related to price increases and the summer. But we are watching that.

And then the consumer business, which in parts of the consumer business, smartphone and tablet in particular that are very strong, that as we talked the last couple of calls we are not that strong. So we step back from the picture I think we feel, clearly we feel confident about Q4 given the order rate we have into Q4, and the things I just said. Beyond there is always in this business the visibility somewhat limited. I would say I feel more positive than negative overall for sure.

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Operator

Our next question from the line of Shawn Harrison with Longbow Research. Please go ahead.

Shawn Harrison ***Longbow Research - Analyst***

Following up on that a bit. The commentary on distribution weakening a little bit. Is that solely you think tied to maybe some of the buying ahead of price increases, maybe a little bit of prebuy activity and not the market eroding? Just want clarification on that first?

Tom Lynch ***TE Connectivity Ltd. - CEO***

I think it as little hard to tell, Shawn. As we dig into it we definitely know we have and I am sure other do, the impact of when you decide to raise prices, the channel buys a little bit ahead, and there are ways we manage that with them. So we always have that impact. It is the summer so we always see a little bit around this time of softness. I think the wilder card is demand softening a little bit. We do see a little softening in Data Comm and Industrial. Some of that flows through the channel. There is an element of that that is softening. This is on the watch closely list. Don't assume this is just a blip. We are not assuming it is falling off the edge, but one that gets a lot of attention from our team to gather as much information as we can.

Operator

Our next question comes from the line of William Stein with Credit Suisse. Please go ahead.

William Stein ***Credit Suisse - Analyst***

Thanks. Wondering if we can talk about ADC for a minute, and two parts of that. With very good sequentially growth in the Telecom/Networks part of the business wondering if that is in your view the start of a protracted cyclical upturn there, or a blip that reverses, or something in between, and then also if you could comment on a successful transaction here what the Company's appetite is for incremental M&A?

Tom Lynch ***TE Connectivity Ltd. - CEO***

I would say if you go into the carrier part of the business it is pretty strong right now. You have to go by geography, and you have to go by segment in geography. Internationally, it is very strong. Less fiber deployed out there and we talked about NBN for example in Australia, all the way up to China has got more activity going, and Europe has a lot of activity going. A lot of quotes and a lot of building going on.

The US is really kind of two stories. The big carriers pausing right now for a couple of different reasons that you are aware of. The secondary carriers buying as they have let fiber in the network, stimulus was geared in that direction, and then of course, this business that we acquired as part of ADC, this distributed antennae system to help coverage is very strong right now, in-building and around building and in major event settings. There are a bunch of different things driving it, but we do feel like we are in a good cycle, and when we look at our Subcom business, which is clearly related to all that, a lot of quote activity. More quote activity this year than last year. Always have to go through funding and everything, so we feel good about that particular business.

Enterprise I think is moving along at a more steady level. Not on the growth trajectory of telecom, but lots of activity there. Similar drivers, more bandwidth, more security in the enterprise. And then the Energy business which is also in our Networks business as you know was flat to slightly down for three years, and I think the deferral of maintenance and upgrades has just caught up, and there is pent-up demand there, so we have been growing at double-digits nicely there, and would expect that to continue. All indications from our customers are that will continue. Terrence, you want to add anything to that.

Terrence Curtin ***TE Connectivity Ltd. - CFO***

Yes. When you look at the results for the quarter and for the year, ADC is performing completely with where we laid out when we did the deal, and to Tom's point, really the strength that we are seeing is in the international market. So some of that strength you see on the fall through, and the very good margin performance is really a combination of the product lines coming together, and our strong position globally around the world. So certainly to Tom's point, the trends we are seeing and the strength we are seeing, does look like it is an early part of a very good cycle.

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Tom Lynch ***TE Connectivity Ltd. - CEO***

As far as our appetite for additional M&A I think it really hasn't changed for the right strategic fits at the right size. We are definitely always looking, and building our pipeline. I think what ADC has done has given us confidence that we can do this well. This business is very well integrated, and it won't be long before we are not talking about ADC because it will be so well integrated that, I mean the sales forces are integrated. The factories are just about integrated. The lines of demarcation won't be so clear anymore, and of course that is how we get the rest of the synergy as well. I think we have the confidence to do more, we are selective the way I think about us, and we are strategic with them, not opportunistic.

William Stein ***Credit Suisse - Analyst***

Great. Thanks very much.

Tom Lynch ***TE Connectivity Ltd. - CEO***

Thank you.

Operator

Our next question comes from the line of Craig Hettenbach, Goldman Sachs. Please go ahead.

Craig Hettenbach ***Goldman Sachs - Analyst***

Following up on the topic of M&A and ADC, which was a larger type deal. On a go-forward basis is the environment out there kind of tuck-in type deals, or can you frame out the opportunities that might be available?

Tom Lynch ***TE Connectivity Ltd. - CEO***

Of course, we can't get specific, but I would say if you were to look at our pipeline, you would put most of what is on our pipeline list in a tuck-in category. As I said before, I wouldn't say we would never do a $1 billion-plus acquisition, if we had one that fit our strategic objective that fit our sort of value criteria we are more than willing to do it. But generally speaking in the industries we are in, and the industries that we want to augment through bolt-on acquisitions, it would be more the $200 million or $300 million sales level range in general.

Craig Hettenbach ***Goldman Sachs - Analyst***

Okay. And then just staying with the theme of capital allocation, the Company has been very balanced in terms of buying back stock, increasing the dividend. As you go forward and the business is generating a lot of cash, is there any bias toward buybacks versus dividends?

Terrence Curtin ***TE Connectivity Ltd. - CFO***

When you look at it, Craig, our view is that is return of capital to shareholders, either way you look at it. When you look at it, I think we will continue to evaluate that with our Board but the key message that we have always sent is, when you look at the strong cash generation model we have, where it does approximate free cash flow as we did this quarter, it is going to be balancing the strategic opportunities that you just asked Tom about versus return of capital. And our payout, we have been a payout philosophy on the dividend of around 25% of free cash flow. We will evaluate that with our Board. The key point is you said it, we will be balanced between return of capital as well as to Tom's point the strategic opportunities. It will be a balance ongoing, I would say that we will to review that with our Board, but I think the key message for you is the cash we generate is going to be put to use or probably returned to shareholders.

Craig Hettenbach ***Goldman Sachs - Analyst***

The last one is you have a couple of quarters of ADC under your belt. I know you talked about that business growth rate above the core business, and just wanted to see what type of feedback you are hearing from customers, and related to that growth rate as you go forward?

Tom Lynch ***TE Connectivity Ltd. - CEO***

The feedback from customers in terms of the product range and from the customer's perspective of more one-stop shopping has been really positive, and I have talked to several of them over the last several months. I think how we have integrated on the front end to bring

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the story to the customer has been received very well. We started to see what I would call small wins out there with the combined product line that supports our acquisition theory that we were going to be able to get some growth over and above industry growth by being able to bundle the products and come in and provide a simpler solution.

I think in the US where ADC is strong in their carrier business, it is slow growth right now because of the potential M&A going on in that space, and the sorting out of how companies might come together, and what that implies for short-term capital spending. As I said, in the second tier it is strong, and in the digital antenna business it is extremely strong. So when we look at the acquisition case compared to where we were, it is really we are hitting on every element of our assumption.

So we feel very good about it as each month goes by we feel like we hit this at the right time. The team is getting the synergy at or ahead of pace, and the cultural integration which is usually the toughest thing, and the one that could upset things is going very, very well, because we have basically taken the best-of-the-best approach, and if you look across that business and take the top management, it is a nice mix of ADC and TE. So we feel really good about it.

Craig Hettenbach ***Goldman Sachs - Analyst***

Great. Thank you.

Tom Lynch ***TE Connectivity Ltd. - CEO***

Thank you.

Operator

Our next question comes from the line of Jim Suva with Citigroup. Please go ahead.

Jim Suva ***Citigroup - Analyst***

Thank you. Congratulations to you and your team for great results and the good outlook.

Tom Lynch ***TE Connectivity Ltd. - CEO***

Thank you Jim.

Jim Suva ***Citigroup - Analyst***

My first question is, when we think about the outlook for the auto trends, and typically the September quarter has European holidays, a lot of people on vacation and holiday the month of August, and we have got some model transition years from the automotive, or model transition time periods from the automotive OEMs. Can you talk about your outlook for the September quarter? Are you expecting a normal seasonal holiday and plant closure transition time period, or a little bit more of a compressed transition for the auto sector production?

Terrence Curtin ***TE Connectivity Ltd. - CFO***

When you look at it certainly as I said on the call, right now auto production sequentially versus quarter three looks flat, and to your point that is not typical. Typically you are right auto production goes down sequentially due to those shutdowns that you typically experience in Europe. What we are seeing is we going to be flat. We do have Japan recovering. That is really offsetting the European shutdowns. When you look year-on-year, the shutdowns in Europe are consistent with last year. So the German manufacturers have a little bit of a compressed shutdown, but they also had that last year, and some of the other manufacturers in Europe and southern Europe are more normal shutdowns. Year-on-year it is pretty consistent with where we saw in 2010.

Jim Suva ***Citigroup - Analyst***

Great. And then my follow-up question has to do with margins. First, just a little nit-picky one on gross margins, and a more important question on the operating margins. The nit-picky question is I think gross margins you are expecting about 30.5, and they came in below that. Can you help us maybe close the gap there, what happened? And longer term can you help remind us on operating margins what your goal is, is it the share level needed for that goal, and the timeline that we are looking at? Thank you.

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Terrence Curtin ***TE Connectivity Ltd. - CFO***

On the gross margin it is really around FX, how currency has moved, and so forth. And I think the key when you look at gross margin is where we guided and exiting the year, we have a lot of moving pieces with Japan and metals, but it was pretty much in line with what we expected. From a long-term model still to get to the 15% that we remain confident in, it is really is 32% gross margin approximately, and our RD&E and OpEx structure, selling in G&A of around 17% combined. That is still how we see the model going forward.

Jim Suva ***Citigroup - Analyst***

What about the sales level to get there?

Terrence Curtin ***TE Connectivity Ltd. - CFO***

Sales level would still be around that $14 billion excluding ADC. We still believe despite the metals headwind, we can still achieve at around that level.

Jim Suva ***Citigroup - Analyst***

And the timeline?

Terrence Curtin ***TE Connectivity Ltd. - CFO***

We are not guiding, Jim, for next year yet. From that viewpoint, we will update our guidance for next year in our next call.

Jim Suva ***Citigroup - Analyst***

Thank you and congratulations again to you and your team.

Tom Lynch ***TE Connectivity Ltd. - CEO***

Thanks, Jim.

Operator

Our next question from the line of Matt Sheerin, Stifel Nicolaus. Please go ahead.

Matt Sheerin ***Stifel Nicolaus - Analyst***

Thanks and good morning. Question on the guidance impact on Japan, particularly the consumer business. You talked about another $35 million negative impact. Is it your sense that is the bottom, and is there any visibility that you have into the December quarter that business starts to come back?

Terrence Curtin ***TE Connectivity Ltd. - CFO***

Matt, it is Terrence. That $35 million is across our communications and industrial segment overall. There is a piece of that which is in Data Comm, there are Data Comm suppliers there as well as consumers. It is not just all consumer. From what we do see we do anticipate that should be the end of it in the fourth quarter. Anything else would be more.

Matt Sheerin ***Stifel Nicolaus - Analyst***

Okay. And then just a follow-up on Jim's question regarding gross margin. You did talk about some positive impact from price increases that went through. Seems from our checks that some suppliers are having difficulty passing prices at this point, given that generally the lead times have come in and growth rates have slowed. How are your conversations going with suppliers? Is there one particular area that you are seeing success versus failure?

Terrence Curtin ***TE Connectivity Ltd. - CFO***

It is a broad based price increase as we talked on the past couple of calls and with where we sort of laid out from an expectation perspective, and our guidance is right in line. So as we sort of told you on prior calls, we assume that we are going to get about 60% to 70% of the headwinds back. Certainly we will get more of that back next quarter than this quarter. But from where it is happening and the recovery, it is pretty much net/net in line where we thought Matt.

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Matt Sheerin ***Stifel Nicolaus - Analyst***

Okay. Thanks a lot.

Tom Lynch ***TE Connectivity Ltd. - CEO***

I would add to that I think we are making very good progress. It is difficult progress but it was, we had to make some progress, and the team just stayed with it. I think this kind of pricing, industries aren't used to it in electronics. On the other hand we aren't used to the commodity costs, and we can't take them at the rate they are at. A lot of preparation, multiple meetings, but we are getting there with it. So I feel very good about the progress.

Matt Sheerin ***Stifel Nicolaus - Analyst***

Okay. Thank you.

Operator

Our next question comes from the line of Sherri Scribner with Deutsche Bank. Please go ahead.

Sherri Scribner ***Deutsche Bank Securities - Analyst***

Hi, thank you. I just wanted to talk about the higher commodity costs, which I don't think we have talked about on the call. It looks like based on your expectations for the fourth quarter that metals will be a lesser percent impact to the quarter than we have seen over the past couple of quarters. Now clearly part of that improvement is the price increases, but I wanted to get a sense of what you are thinking about metals over the next couple of quarter, and the impact that has, and does the more positives metals environment or the pricing help you get closer to your operating margin targets in fiscal 2012? Thanks.

Terrence Curtin ***TE Connectivity Ltd. - CFO***

Sure. The metals environment is versus the last time we spoke really hasn't changed. If you look on an overall basis as you can see on the walks on the guidance page, it going to be a $0.14 headwind for our year net of the pricing. And when you look at it the metal environment has sort of flattened. It has had a little bump up the past couple of weeks. But overall when we look at it, fourth quarter still will be about a $0.01 headwind to earnings per share. That is about 30 to 40 basis point on the operating margin.

As we go into next year pretty consistent with what I said last quarter. Certainly we have benefited from hedging as well this year. And if you sort of take current metal rates and you roll off our hedges, and you assume our pricing we still would have maybe a $0.05 or $0.10 headwind next year for the pricing, certainly metals earlier in the year were lower than they are now. So right now with what we have done with pricing and our hedging programs, metals would be a slight headwind into next year at current rates of about $0.05 to $0.10 per share.

Sherri Scribner ***Deutsche Bank Securities - Analyst***

Great. Thank you.

Operator

The next question from the line of Steve O'Brien with JPMorgan. Please go ahead.

Steve O'Brien ***JPMorgan - Analyst***

Thanks for taking my question. Looking at the ADC numbers, I think you are talking about $950 million in revenue contribution fiscal 2011 versus sort of $1 billion previously. That just might be some kind of sort of about $1 billion before. Sort of looking at the ADC revenue contributions, $310 million in June, $274 million in March, it would about 2% above what ADC reported on a standalone basis kind of last year. Is there accounting adjustments in there that impact that organic growth, or is that the kind of level ADC is growing at right now?

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Terrence Curtin ***TE Connectivity Ltd. - CFO***

With the things Tom talked about, ADC is growing when you look at with AT&T and Verizon right now. They were growing slower, and that is what we expected. So the $950 million to $1 billion, Steve, to your point is rounding. The number really has not changed on the topline, but we did expect this year with what AT&T and Verizon were doing in their roll-outs, that it would be a slower year until some of the DAS things kicked in, so it is right where we expected and the earnings of $0.12 per share is right where we expect.

Steve O'Brien ***JPMorgan - Analyst***

Got you. So do you think, what would be the timing potentially for a reacceleration to that 6% to 8% organic growth target when the DAS projects reach critical mass?

Terrence Curtin ***TE Connectivity Ltd. - CFO***

The 6% to 8% organic growth included both our businesses so it was a global picture when we gave out that guidance. It was combined for the entire segment including ADC. It was not just ADC, Steve.

Steve O'Brien ***JPMorgan - Analyst***

Got you.

Terrence Curtin ***TE Connectivity Ltd. - CFO***

So it was really the combination and the leverage that we get around the world, not just in the legacy ADC business.

Steve O'Brien ***JPMorgan - Analyst***

Great. Thanks for that.

Terrence Curtin ***TE Connectivity Ltd. - CFO***

Thank you.

Operator

Our next question comes from the line of Amit Daryanani, RBC Capital Markets. Please go ahead.

Ryan Jones ***RBC Capital Markets - Analyst***

Ryan Jones on for Amit. On Network Solutions if we recall correctly, the target has been to get to about 15% Op margins, and this quarter is obviously a stellar performance. I was just wondering how should we think about that long-term target, especially since we are very close to it right now and the timeline to getting 15% op margins in that segment very consistently?

Terrence Curtin ***TE Connectivity Ltd. - CFO***

When you look at it, certainly we had very strong growth internationally, and next quarter we do expect that network solutions will run around this level. We also are getting some seasonal benefit. We are typically stronger this time of year. So when we still look at it, the long-term target for this business, margin has not changed. When you look at it, I think if we continue to see the volume that we are seeing in there, I think later next year consistently be in at 15%, it is a real opportunity, but we will do that as part of our guidance, as we update that next quarter into next year.

Ryan Jones ***RBC Capital Markets - Analyst***

Thanks. And then my follow-up question is last quarter I think you said that about 3 million units were coming out of your full year forecast due to Japan. And I was wondering given your expectations for 19 million units next quarter, is that 3 million, is that view still intact, or is there a better recovery than you are seeing than with your Japanese customers?

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Terrence Curtin ***TE Connectivity Ltd. - CFO***

Actually when you look at it is really 1 million units now. When you look at it, you are right. Last quarter we said 2 million units in the third quarter and 1 million units in the fourth quarter related to the Japan earthquake. It is going to be 1 million units and almost entirely in the third quarter. We really view in the automotive realm of things, the Japanese earthquake is essentially over and we are starting to recover.

Ryan Jones ***RBC Capital Markets - Analyst***

Great. Congratulations on a good quarter.

Tom Lynch ***TE Connectivity Ltd. - CEO***

Thank you.

Terrence Curtin ***TE Connectivity Ltd. - CFO***

Thank you.

Operator

Our next question comes from the line of Wamsi Mohan, Bank of America. Please go ahead.

Wamsi Mohan ***Bank of America/Merrill Lynch - Analyst***

Yes, thank you. Terrence, you mentioned some buildup of inventory in automotive at Tier one customers in fiscal third quarter in your prepared remarks. How much of the revenue increase about production trends would you attribute to this inventory dynamic, and do you therefore, why would you not expect auto revenue trends for T to be below production trends for next quarter? What are the offsetting factors there?

Terrence Curtin ***TE Connectivity Ltd. - CFO***

As you know, certainly you have production. And production year-on-year like I said was basically flat quarter three to quarter three, and we grew 9% quarter three on quarter three. I am sorry, 11% quarter three to quarter three in automotive. When you look at that certainly there is content increase. There is a little bit of share gain. But the separation had a little bit of extra. And what we did see in places like Japan, we did still see some customers making sure they were taking goods in, and even though the OEMs were not producing.

So it is a little bit of an elusive number, but it was one qualitative reason we were a little bit higher. When you look at going into next quarter, next quarter where you have about a 6% growth and we said the segment is going to grow 10% year-over-year, we will get a little bit of that unravel, but the content increases and the share gain will still allow us to grow higher than production. So year-on-year production like I said in the call, 6% in quarter four. We are going to grow double-digit. We will have a little bit of negative impact from the Tier one customer, but the content and share gain will still drive the growth above production and absorb that.

Wamsi Mohan ***Bank of America/Merrill Lynch - Analyst***

Thanks a lot. And Terrence, can you remind us of where your hedge levels are for raw materials heading over the next six months?

Terrence Curtin ***TE Connectivity Ltd. - CFO***

When you look at it right now the hedge levels if you look at it from a metals perspective, in the fourth quarter we are probably going to be in around the $420 copper and $1450 gold, and around $34 silver. Silver pretty much in line with the market, the other two we still have some protection. And I think to the point, Wamsi, similar to what I said to Sherri, when the hedges roll off the current market net of our pricing, right now we see a $0.05 to $0.10 headwind going into next year.

Wamsi Mohan ***Bank of America/Merrill Lynch - Analyst***

Great, thanks a lot.

Terrence Curtin ***TE Connectivity Ltd. - CFO***

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Tom Lynch ***TE Connectivity Ltd. - CEO***

Thank you.

Operator

Our next question comes from the line of Amitabh Passi with UBS. Please go ahead.

Amitabh Passi ***UBS - Analyst***

Thank you, a quick follow-up. I apologize if you touched on this. Should we assume CIS operating margin likely bottomed in the June quarter, and should we expect improvements as we go forward? Related to that, I think Tom you talked about some customer wins in that segment. Was hoping you could shed a little bit of color who these customers might be, or which sub-segments?

Terrence Curtin ***TE Connectivity Ltd. - CFO***

When you look at the margin as I do for your question, CIS we do believe has troughed with this quarter and stabilized. From that viewpoint I do think that our guidance does assume their margin is going to increase going from Q3 to Q4. So that is a fair assumption, Amitabh.

Tom Lynch ***TE Connectivity Ltd. - CEO***

Could you repeat the questions on the customers again?

Amitabh Passi ***UBS - Analyst***

Yes, I think that you said specifically in reference to the consumer area of CIS that you had seen some customer wins.

Tom Lynch ***TE Connectivity Ltd. - CEO***

Oh yes, some new program launches with the guys that reported last night. I think last quarter we have a little bit of a beachhead. Now we are probably a couple of feet off the beach onto the land. So we are making progress it is really building up consumer team's confidence, but we still have a long ways to go, and consistency is what we need in that business. Making progress and making progress with the right customer. But we have got to string together three or four more quarters of that kind of progress.

Amitabh Passi ***UBS - Analyst***

Okay. Thank you.

Tom Lynch ***TE Connectivity Ltd. - CEO***

Thank you.

Operator

And our final question comes from the line of Shawn Harrison with Longbow Research. Please go ahead.

Shawn Harrison ***Longbow Research - Analyst***

Two very brief follow-ups. Terrence, if you could repeat the global production for the third quarter, and then what you expect the fourth quarter to be as well? And then second on ADC, just want to tie up the synergies where we are at right now. Are all of the SG&A synergies in the model, and maybe the timing for those manufacturing synergies to still come online?

Terrence Curtin ***TE Connectivity Ltd. - CFO***

Sure. In Q3 we said production was around 18.5 million units which was basically flat year-on-year with last year, and we see Q4 being about 19 million global production, which is up about 6% versus last year, Shawn. So that is the production question.

Let me move to your ADC. When we look at ADC as we said when we laid out the business case for you all, we said $100 million of cost synergies. $60 million of that was going to come out of the SG&A area. We will be running that level in those SG&A synergies in our fourth quarter. From that viewpoint consistent with what we said before, that is on track. The manufacturing synergies, we are in the process of planning those and working those, they will come in throughout next year. When you look at those $40 million, not all will be have next year, but they will be in effect by the end of the year, and in that regard that is how you should expect it.

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Shawn Harrison ***Longbow Research - Analyst***

Thank you very much, and congratulations again on the quarter.

Terrence Curtin ***TE Connectivity Ltd. - CFO***

Thank you.

Tom Lynch ***TE Connectivity Ltd. - CEO***

Thanks everyone for your questions.

Keith Kolstrom ***TE Connectivity Ltd. - Sr. Director, IR***

Thanks for joining the call today. If you have any follow-up questions, please feel free to contact the IR team. Thanks.

Operator

Thank you so much ladies and gentlemen. This conference will be available for replay after 10.30 AM today through July 27 at Midnight. You may access the AT&T Executive replay system at any time by dialing 1-800-475-6701 and entering the access code 205447. For our international participants, please dial 320-365-3844, and entering the access code 205447. That does conclude our conference for today, thank you for your participation, and using AT&T Executive Teleconference Service. You may now disconnect.

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by and welcome to the TE Connectivity reports fiscal fourth-quarter results. At this time all participants are in a listen-only mode. Later we will conduct a question-and-answer session with instructions given at that time. (Operator Instructions) As a reminder, this conference is being recorded. I would now like to turn the conference over to Keith Kolstrom, Senior Director of Investor Relations. Please go ahead.

Keith Kolstrom ***TE Connectivity Ltd. - Senior Director IR***

Morning and thank you for joining our conference call to discuss TE Connectivity's fourth-quarter and full-year results for 2011 and our outlook for the first-quarter and full-year 2012. With me today are Chief Executive Officer Tom Lynch; Chief Financial Officer Terrence Curtin.

During the course of this call we will be providing certain forward-looking information. We ask you to review the forward-looking cautionary statements included in today's press release. In addition, we will use certain non-GAAP measures in our discussion this morning. We ask you to review the sections of our press release and the accompanying slide presentation that address the use of these items. Press release and related tables, along with the slide presentation, can be found on the investor relations portion of our website at te.com.

Finally, for participants on the Q&A portion of today's call, I would like to remind everyone to please limit themselves to one follow-up question. Make sure we are able to cover all questions during the allotted time. Now let me turn the call over to Tom for some opening comments.

Tom Lynch ***TE Connectivity Ltd. - CEO***

Thanks, Keith, and good morning, everyone. If you could please turn to slide 3. This was a good quarter for the Company and a strong finish to our fiscal year.

Sales in the fourth quarter of $3.9 billion were up 25% overall versus last year and were up 2% organically. And as a reminder, this excludes currency translation, acquisitions, and about $277 million in sales that happened in the last week, which was the 14th week in the quarter.

Our Q4 growth was driven primarily by our Transportation and Network segments. In the Transportation segment we are benefiting from strong end markets and share gains. In Automotive, worldwide vehicle production was up 6% and our sales were up 13% organically. I am really pleased that we continue to execute very well in this business across all geographies, especially China and North America.

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In our Networks segment, the acquisition of ADC contributed revenues of $323 million in Q4. We did see continued strength in global broadband infrastructure investment, and we continue to see the benefits of the ADC acquisition with our much stronger end-to-end product line.

Energy infrastructure investment also continued to grow around the world, and we had another strong quarter in this business. In total, the strength in Transportation and Networks more than offset weakness in our CIS segment, where we continued to experience soft market demand and distributor inventory corrections.

Adjusted earnings per share were $0.89, up 24% versus Q4 of 2010 and above the high end of our guidance range. Excluding the impact of the extra week, adjusted EPS were $0.81, which was in line with our guidance and up 13% versus the prior year.

Free cash flow is a very strong $560 million in the quarter. As a result of our expectation for continued strong cash generation, our Board increased the share repurchase authorization by $1.5 billion and approved a recommendation to increase the dividend by 17% beginning in the third fiscal quarter of 2012.

Let me say a few words about the full year. Sales were up 19% overall and 6% organically. I feel this was good overall growth considering the challenging macroeconomic environment of the past year.

We had very strong performance in our Automotive; Aerospace, Defense, and Marine; Telecom; and Energy businesses. And this more than offset the disappointing performance in the CIS segment.

Adjusted earnings per share of $3.12, which is a record for us, was up about 20% from $2.54 in fiscal 2010. This increase was primarily the result of organic sales growth and productivity improvements, the acquisition of ADC, and the benefit of share repurchases.

Free cash flow for the year was $1.4 billion. Our strong, consistent cash generation enabled us to make the ADC acquisition, which gave us a leading position in broadband infrastructure markets -- and this is a market that we continue to get more and more excited about -- and as well as enabled us to return $1.2 billion to our shareholders this fiscal year. This balance of acquisition and return of cash to shareholders is consistent with our strategy and consistent with the strategy that we launched four years ago.

Now let me turn it over to Terrence, and he will discuss fourth-quarter performance in more detail, and then I will come back to make some final comments and discuss our outlook.

Terrence Curtin ***TE Connectivity Ltd. - EVP, CFO***

Thanks, Tom, and good morning, everyone. So if you could please turn to slide 4 and let me go through sales performance. Total Company sales of $3.9 billion were up 25% year-over-year with growth across all segments and geographies. We did have an extra week in this quarter; and excluding the impact of this week, which was $277 million, our fourth-quarter sales were $3.6 billion.

Organic growth was 2% in the quarter, driven by our Transportation and Network Solutions segments. On a geographic basis, sales grew 6% in EMEA and 1% in the Americas on an organic basis. Asia was down 2% organically due to declines in Japan that more than offset 6% growth in China.

Also, ADC sales were $323 million in the quarter, and currency translation increased overall growth by $174 million.

On a sequential basis, sales were up 5% overall and down 2% organically.

Now let me give you highlights by the key markets in each of our segments. And unless I indicate otherwise, all changes will be on an organic basis, which excludes the effect of currencies, the ADC acquisition, and the additional week.

So let's turn to slide 5. In our Transportation Solutions segment, sales increased 12% versus the prior year. In the Automotive market our

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sales increased 13% versus the prior year, with sales up 14% in EMEA and 12% in both the Americas and Asia. In China, our sales were up 22% versus last year.

Global vehicle production was approximately 19 million units in the quarter, up 6% compared to last year. Our sales growth was once again above auto production due to electronic content increases and our increased share, as well as a benefit of restocking following the Japan earthquake.

End-demand trends remain solid in quarter one, In quarter-one global auto production is estimated to be approximately 20 million vehicles, up 4% versus the prior year. This production estimate includes growth in North America and a continued recovery in Japan, partially offset by a slight decline in Europe.

In the Aerospace, Defense, and Marine market, sales were up 8% versus the prior year. Growth was driven by strong demand in the commercial aerospace and oil and gas markets and as well as share gains in the commercial air market. For the Transportation Solutions segment in the first quarter, we expect that our revenues will be up approximately 10% versus prior year.

Please turn to slide 6. In our Communications and Industrial Solutions segment, total sales declined 8% organically versus the prior year. Let me discuss certain markets in detail.

In the industrial equipment market, which had been strong for the first nine months of this year, our sales were down 5% in the quarter versus the prior year. We are experiencing inventory corrections by distributors which we expect to continue into early fiscal 2012. And just to remind you, about half of our sales in the industrial market go through the distribution channel.

In the DataComm market, which includes sales to the communication equipment, server, storage, and wireless equipment markets, our sales were down 14% versus last year driven by continued softness in the server and switching markets as well as distributor and EMS inventory corrections.

In the Consumer Devices area, revenues were down 13% versus the prior year but were up 10% sequentially. As discussed on prior calls, the year-over-year sales decline is due to customer mix and our relatively weak position in smartphones. The sequential growth reflects our efforts to stabilize the business and normal market growth related to holiday builds.

We believe our business bottomed in quarter three, and we're encouraged by the recent program activity and improving relationships with key customers. In quarter one, for the CIS segment we expect revenues to be down approximately 10% versus the prior year driven mainly by customer inventory adjustments that are occurring.

Please turn to slide 7 and let me get into Network Solutions. Total sales were up 68% including ADC sales of $323 million. On an organic basis, sales in the segment were up 2% versus the prior year.

In the Telecom network area, sales were up 6% organically versus the prior year driven by continued global investment in fiber networks; and we saw particular strength in Latin America and Asia.

In the Energy market sales were up 9% versus the prior year with strong growth in all regions as investment in distribution, transmission, and power generation continues to grow around the world.

In the Enterprise Network market our sales increased 4% versus the prior year due to increased data center spending and infrastructure builds in emerging markets.

Finally, in our SubComm business, as expected our sales declined 10% versus the prior year. Bookings in the quarter were $80 million, and we're working to bring several recent awards into force and continue to expect 2012 full-year sales of approximately $600 million.

Overall, in quarter one for the Network segment, we expect it to be up about 30% due to the ADC acquisition. On an organic basis the

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segment will be relatively flat versus the prior year, as global growth in fiber and energy networks is offset by an expected decline in SubComm, which we expect to have sales about $125 million in the first quarter, and a temporary slowdown in spending by North American telecom carriers.

Let me now move over to earnings which start on slide 8. Our GAAP operating income for the quarter was $465 million; and this includes $23 million of charges related to the ADC acquisition. The integration has progressed as we expected, and with the actions we have taken the business exceeded 10% adjusted operating margin in the fourth quarter and contributed $0.12 to our full-year adjusted EPS.

Also in the quarter we had $62 million of restructuring and other charges. This was slightly higher than we guided, as a result of actions that we took in response to the continued softness we are experiencing in the CIS segment.

If you look at our Company overall, during the quarter we reduced our headcount by about 3% through a combination of temporary and permanent reductions in response to the weakness that we were seeing in certain markets. On an adjusted basis, operating income was $550 million with an adjusted operating margin of 14.1%. The operating income impact from the additional week in the quarter was $53 million. Excluding the extra week the adjusted operating margin was 13.7%, which is a 60 basis point improvement versus the third quarter.

The improvement on slightly lower sales was driven mainly by the pricing actions that were implemented to offset material price inflation.

Adjusted earnings for the quarter were $0.89 per share, and if you exclude the $0.08 benefit from the additional week, adjusted earnings were $0.81 per share, which was up 13% from the prior year. The improvement was driven by sales increases, the acquisition of ADC, and the impact of share repurchases.

If you could move to slide 9. Looking at the top half of the slide, gross margin in the quarter was 31.5%, which did include a benefit from the extra week. If you take this benefit out, our adjusted gross margin was in line with our guidance of approximately 31%. This is an improvement versus 30.2% in quarter three and was primarily due to the effect of the price increases. Based on the expected volume decline that we see in the first quarter compared to this quarter, we expect adjusted gross margin of approximately 30.5%, which is down slightly.

Looking at the bottom half of the slide, operating expenses as a percentage of sales were in line with where we guided. In dollars, expenses were up $136 million year on year, primarily driven by the increase in sales, the addition of ADC, net of the cost actions that we did with the acquisition, and the additional week in the quarter. In the first quarter we expect research, development, and engineering and SG&A of approximately 5.5% and 12.5% of sales, respectively.

Let's turn to slide 10 so I can discuss items on the P&L below the operating line. Net interest expense was $37 million compared to $34 million in the prior year. We expect in quarter one net interest expense of approximately $34 million.

Other income, which relates to our Tax Sharing Agreement, was $14 million. In quarter one we expect other income of approximately $13 million.

In the tax rate, both the GAAP and adjusted effective tax rate was 26% in the quarter, and we expect the tax rate to remain the same at this level of 26% in 2012.

So now let me talk about free cash flow and working capital on slide 11. Our free cash flow in quarter four was very strong at $560 million; and for the full year we generated $1.4 billion of free cash flow. Capital spending was $206 million in the fourth quarter or about 5% of sales.

For the full year, capital spending in 2011 was about 4% of sales. In fiscal 2012 we do expect the capital spending to run with our long-term expectation around 4% to 5% of sales.

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In working capital, our days were flat versus the third quarter overall, and we ended the year at our targeted levels. As we look at 2012 we do expect free cash flow to approximate net income; and as typical, our first-quarter free cash flow will be the lowest quarter of the year.

Please turn to slide 12 so I can talk about cash and the balance sheet a little bit. We began and ended the quarter with $1.2 billion of cash. Uses of the $560 million of free cash flow generated in the quarter were dividends of $76 million; repurchases of approximately 10 million shares; and the payment of $129 million related to pre-separation tax matters.

In 2012 we expect additional payments of about $90 million related to the shared separation tax liabilities. If you take both the payment that we just made in 2011 and the $90 million expected in 2012, this will represent about one-third of the estimated $600 million we expect to pay out related to the pre-separation tax liabilities.

I also want to highlight that, based upon the strong free cash flow and our strong balance sheet, during 2011 $1.2 billion of the $1.4 billion of free cash flow that we generated was returned to shareholders both through dividends and share repurchases.

If you could move to page 13, and then I will briefly discuss order trends. Total orders in the quarter were $3.6 billion, and the book to bill was 0.94 excluding the SubComm business. If you take out the impact of the extra week on orders, our orders were $3.4 billion in the quarter.

Book to bill in the Transportation segment was 1.01 and orders continue to be solid, driven by increased auto production and improving demand in the commercial aerospace market. In Network Solutions excluding SubComm, our book to bill was 0.94, driven by normal seasonality and the slowdown in spending by North American telecom carriers.

In our CIS segment, our book to bill was 0.86, with the continuation of the distributor inventory corrections that began in quarter three and end-market softness in the DataComm market impacting order rates.

So now let me turn it back to Tom and he will cover our outlook.

Tom Lynch ***TE Connectivity Ltd. - CEO***

Thanks, Terrence. If you can turn to slide 14, in 2012 we expect organic growth of 2% to 6%. This compares to 6% in 2011. This is in line, I'd say, with current expectations for a slight slowdown in global economic growth in our fiscal 2012.

For the first quarter, we expect our sales to be in the range of $3.4 billion to $3.5 billion. This is an increase of 6% to 9% over the prior year. On an organic basis, which excludes the ADC acquisition, this is essentially flat versus the prior year; Terrence touched on that a little earlier.

In addition to normal seasonality, Q1 will be affected by continued weakness in CIS markets. By segment, we expect continued strength in Transportation and expect this segment to be up about 10%. Networks will be flat, and CIS will be down about 10%.

Our Q1 EPS is expected to be in the range of $0.68 to $0.72. This is down slightly versus the prior year. The essence of this is that the CIS weakness is more than offsetting the benefits of having ADC in the quarter.

For the full year, sales are expected to be $14.3 billion to $14.9 billion. Adjusting for ADC and the additional week in fiscal 2011, organic growth is expected to be 2% to 6%. The midpoint of our guidance is $14.6 billion and the major assumptions underlying this are as follows.

We expect and the industry expects auto production to grow about 5% to 82 million vehicles. We expect continued growth in telecom and energy infrastructure investment. We expect SubComm sales in the range of about $600 million. And we do expect the market served by our CIS business to begin to improve in the second half of the year.

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This translates into an adjusted EPS in the range of $3.10 to $3.40. And that compares to the 2011 adjusted EPS of $3.03; and again, that is excluding the extra week in 2011.

At the guidance midpoint of $3.25 EPS, this is approximately 7% earnings growth, driven by the sales increase, increased further ADC synergies, and the benefits of our strong cash generation.

Just to sum it up before Q&A, I would say 2011 was a very good year for the Company with many positive accomplishments. We had strong sales growth and record EPS coupled with $1.4 billion of free cash generation.

We improved our share and capitalized on the positive trends in the Automotive, Aerospace, Defense, Marine, Energy, and Telecom markets.

I am really proud of what the team did in completing and integrating ADC. This is a tremendous addition to our Company; and again, welcome to all the folks from ADC who are doing a great job for us. This integration, as I said, is right on track and the operating margins have doubled inside the year of acquisition, as we committed.

As I mentioned earlier, performance in some of our CIS businesses was not up to expectation. This was a business had a great year in fiscal '10. The market hit us; we didn't quite react as fast as we could have in '11. But I am confident that we are getting this back on track and we are going to see improved performance in the second half of the year as we get through the inventory adjustment.

So all in all, a good year for the Company. I really feel like we are a stronger Company than we were a year ago. And although we are in a bit of uncertain times I am really confident that if the market is flat we will do -- we will perform solidly; and if the market does pick up we will perform well. With that, let's open it up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Jim Suva, Citi.

Jim Suva *Citigroup - Analyst*

Thank you, and congratulations to you and your team there at TE Connectivity. The question I have and then probably a quick follow-up is -- on the December outlook it is kind of interesting to see that year-over-year earnings per share are actually going to be down, especially considering that you are folding in ADC, which you mentioned is on track. Can you help us bridge the gap about why year-over-year December's earnings is down?

Is there any impact from the Thailand flood for production disruption? Or is it all the CIS weakness? But help us understand why December year-over-year EPS would be lower year-over-year.

Tom Lynch *TE Connectivity Ltd. - CEO*

Jim, thanks. No impact from Thailand -- no noticeable impact, although we have a little business there. It really boils down to CIS.

A year ago CIS was ramping. As I mentioned, through 2010 we had a very good year. We expected the business to continue to grow. We had been chasing it up, I think like a lot of companies in 2010, and we were making sure we got in sync with what we expected was a growing market.

It started to slow down throughout 2011. So if you think of a year ago, we were ramping; now we are still adjusting downward. And that is the whole impact.

So that is more than offsetting ADC. The balance of the business is very good. So it is really a CIS issue.

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As we get through the inventory adjustment you will again see the operating leverage that you saw throughout the Company in FY '11 kick in, in the second half of FY '12.

Jim Suva ***Citigroup - Analyst***

Great. Then my quick follow-up is on your full-year earnings guidance. Does that incorporate the recently announced stock buyback? Or if you are active in that would that be additive to your EPS guidance?

Terrence Curtin ***TE Connectivity Ltd. - EVP, CFO***

That is included, so any way we would use our cash is included in our full-year guidance range.

Jim Suva ***Citigroup - Analyst***

Okay, thank you and congratulations to you and your team.

Operator

Amit Daryanani, RBC Capital Markets.

Amit Daryanani ***RBC Capital Markets - Analyst***

Thank you. Good morning, guys. I guess two questions.

One, could you just talk -- are thoughts on implementing further restructuring for the CIS segment specifically, given the revenue headwinds you have there? Near-term I'm just trying to get a sense. To get back to the 15% margins we saw in Q1 of last year, is it really going to be a revenue game from here on out? Or is this some sort of cost-cutting initiatives you can take to get there?

Tom Lynch ***TE Connectivity Ltd. - CEO***

We have been adjusting our costs down. I would say tightening down; it is more that than any big restructuring. I will let Terrence get into a little more detail in a minute.

So yes; as we saw the slowdown was going to continue three to four months ago we began ramping down. Our total headcount is down over 3,000 in the last 100 days.

With respect to the 15% margin, I would expect us -- if we get back to normal revenue growth early next year to be on that. That's still the right next step for us. I don't think there is anything fundamental that is in the way of that. The pricing that we were able to do this year has offset some of the material costs.

About the only piece of our business that is really weaker fundamentally I would say than a year ago is consumer. We have been talking about that. But that has stabilized; and even at the current levels, that is not going to hold us back from getting to 15% margin.

Terrence, you want to elaborate on the restructuring?

Terrence Curtin ***TE Connectivity Ltd. - EVP, CFO***

Yes, when you look at CIS, how it is included in our guidance, Amit, certainly we guided it's going to be down 10% year-over-year. Sequentially, it's going to be down about 8%, 9%, so that is creating additional volume pressure -- to Jim's question.

When you look at it, as that comes back both from the cost actions, levers that we are pulling as well, Amit, in our guidance we do assume exiting the year CIS will be back up to about a 13% margin.

And to Tom's point we get back into 15% early the year after, based upon volume and how we get our operating leverage.

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Amit Daryanani ***RBC Capital Markets - Analyst***

Got it. That's helpful. Maybe just my follow-up was, if you could talk a bit about the 15% op margin target that you have had in the long term. Is that still what we are aiming for? Would it be more reasonable to think that is more of a fiscal '13 dynamic at this point, when ADC's benefits are realized, CIS is at more stable footing?

And to the extent -- on that conversation, could you also just talk about why conversion margins for fiscal '12 look like they are in the high single digits right now?

Terrence Curtin ***TE Connectivity Ltd. - EVP, CFO***

So on the first part, to Tom's point he said earlier, when you look at the 15% total Company, certainly that looks like that would be exactly like you said. That would be into 2013 assuming certainly a normal growth environment.

When you look at the conversion rate year on year, it is really the impact of CIS's comparison in the first quarter and the first quarter. Through the remainder of the year we see more normal conversion rates; but certainly would, when we compare to this first quarter, that fall-through is weak in our first-quarter compare, really related to Tom's point earlier when CIS was ramping last year. Now we are in sort of a decline mode. So that is the real reason why the fall-through looks a little light.

Amit Daryanani ***RBC Capital Markets - Analyst***

That's fair. Actually your conversion margins actually looked pretty good for the next three quarters after Q1. Thanks a lot and best of luck.

Operator

Amitabh Passi, UBS.

Amitabh Passi ***UBS - Analyst***

Hi, thank you. Just a clarification. What exactly is embedded from ADC's contribution in your full-year fiscal '12 guidance? Is that an incremental $0.08 over fiscal '11? Perhaps you could just clarify that.

Terrence Curtin ***TE Connectivity Ltd. - EVP, CFO***

Well, when you look at it, it's completely in line. We are not going to guide by ADC; that is integrated in when you look at it. But it's completely in line when you look at what we said in the original acquisition plan.

So we have about $45 million of savings in this year. And when you look at it, it is getting up about 80% of the $100 million we said originally would be in by the end of 2012. So from that viewpoint that is how you should think about it.

Keith Kolstrom ***TE Connectivity Ltd. - Senior Director IR***

To your point, Amitabh, I think you're right. Fiscal '11 included about $0.12 from ADC.

Terrence Curtin ***TE Connectivity Ltd. - EVP, CFO***

Correct.

Amitabh Passi ***UBS - Analyst***

Correct, okay. And then perhaps for Tom, when I look at your full-year fiscal '12 guidance, can you perhaps give us insight in terms of what your expectations are for your major end markets, your major operating segments, relative to the plus-2% to plus-6% that you are guiding to for Company overall growth?

Tom Lynch ***TE Connectivity Ltd. - CEO***

Sure. Let me just reiterate the fundamental assumptions underneath it. So it is predicated on auto production of 5% to 6% getting to about 82 million units. So we would expect our Automotive business to grow higher than that, as is typical. We would expect the Networks business organically to grow in the low to mid single digits, largely impacted by the slowdown in North America right now,

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which is related to everything going on and the potential consolidation of the carriers there.

We will pick up the benefit of ADC. So overall that gives us about growth in the 7% range.

In CIS, it is really a tale of two halves. Down about 5 to 10 in the first half; up 5 to 10 in the second half. And that is year-over-year comparison. So those are the major assumptions embedded in that.

Amitabh Passi ***UBS - Analyst***

Okay, thanks. I will jump back in queue.

Operator

Shawn Harrison, Longbow Research.

Shawn Harrison ***Longbow Research - Analyst***

Morning, everyone. Wanted to just delve in on the Automotive business. Much better than market performance this quarter even if you maybe strip out some of the Japan destocking. But if you could talk as you move through 2012, do you expect that same type of spread over market growth based upon the content and the share gains?

Tom Lynch ***TE Connectivity Ltd. - CEO***

I would expect in that range. I mean we had another very good year. As you know, Shawn, we are strong in every single market in every part of the world.

We clearly, by every angle we look at it, picked up share in North America and in China. I would say we held on to our very strong position in Europe. So I would expect that we will continue to grow above the production rate -- probably not quite as much as we did in FY '11, to be candid.

I think we are not reducing our expectations, but with an exceptional year part of that was still the benefits coming out of the downturn when we kept investing. But we would expect to inch our share up a little more in '12, but probably not have as big a jump as we did in '11.

Shawn Harrison ***Longbow Research - Analyst***

Are you seeing any warning sides in the automotive market? I know that -- I guess it's the one end market that is really holding up well here. So there is a concern here that potentially we could see a little --

Tom Lynch ***TE Connectivity Ltd. - CEO***

I'll tell you, we look at it every hour of every day. I wouldn't say warning signs. I mean, clearly softness in car purchases in Southern Europe, but that is not new. That has really been going on for four or five years.

The German market continues to be strong. I don't think as bullish as two or three months ago. It was really -- our customers are really bullish and you have seen they are still bullish, but maybe not quite as much.

Continue to expect strong growth in China, probably a little slower than last year but still very robust. So we -- everybody is our customer; we are very plugged in; we are super sensitive obviously from three years ago. So we have our tentacles into every place we can to pick up any insights.

But if you look at even the most recent orders we are not seeing any signs yet. And we know our customers are also more in tune and ready to react to any unfavorable indicators. So I wouldn't say warning signs, no.

Shawn Harrison ***Longbow Research - Analyst***

Okay, and there's a brief follow-up. Terrence, maybe if you could speak to where you are at on commodities right, now both copper and gold, versus the price recovery; and how you view that I guess in the first half or the next six months.

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Terrence Curtin ***TE Connectivity Ltd. - EVP, CFO***

Sure. When you look at this quarter, we did a pretty good job. We pretty much essentially offset -- with the pricing actions we have talked to you about over the past six months, offset the metal headwind. And you saw that in the gross margin, as I indicated, and on the operating margin.

When you go into next year, with the movement we have seen in metals and also considering our hedging positions in the next year, right now when we look at metals and the pricing we still have to roll over, the impact on next year is going to be pretty minimal, whereas last quarter I told you it could be a $0.05 or $0.10 headwind, right now with where metals have moved it looks like it's going to be fairly neutral. And that is what is included in our guidance.

Shawn Harrison ***Longbow Research - Analyst***

Very helpful and thanks so much.

Operator

Steve O'Brien, JPMorgan.

Steve O'Brien ***JPMorgan - Analyst***

Hi, great. Thanks for taking my question here. As far as the drop-off, I think it has been widely reported in terms of Western carriers' network spending. Can you help me understand what gives you the confidence that there will be recovery, I guess, getting to a quarter or two out, that gets that Networks segment back going?

And maybe I am under-appreciating also probably the growth, and maybe you can touch on this, the growth you are assuming for the Energy and enterprise piece parts?

Tom Lynch ***TE Connectivity Ltd. - CEO***

Thanks, Steve. Yes, I guess the way I think about it is, you just look at the fundamental demands on the networks and no end in sight. The capacity is being stretched. Coverage needs to expand. The throughput needs to expand. So there's fundamental drivers.

I think we are always going to see a lumpiness in demand. In my entire career around this -- and I have spent most of my career around this business -- it has always been lumpy because it is significant investments that go in and then a pause. So I think the combination of what is going on in our Q4 in North America, on top of the last year a pretty robust investment around the world, means it is going to grow slower.

We grew 14% organically in the Network business in fiscal year '11. So it was a tremendous year of both market growth and share growth for us. Add on top of that ADC, so a big year for us.

We see that organic growth being kind of in the low single digits in the midpoint of our assumption for fiscal '12. So we definitely expect it to slow down a bit. I don't think we are unrealistically optimistic with that kind of assumption.

We do hope things get worked out in North America soon. There is certainly the need for the investment. That is what our customers are telling us, to stay ready.

But we had a lot of experience in this market, so know that it can be lumpy. But we are positioned very well in the product range and we are positioned very well in our cost structure, so we will capitalize on the upside and we will manage through any slowdown.

Steve O'Brien ***JPMorgan - Analyst***

Great. Thanks for that, Tom. Then a quick follow-up and maybe a clarification too, if I could. The follow-up would be what are your distributors telling you in terms of inventory levels and how low now can this -- how long can this correction continue? How close to the bottom are we in terms of leanness of inventories on the shelf?

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Then the clarification is just perhaps you could give us an actual share count being used in your EPS guidance for the quarter and next year. Thanks.

Tom Lynch ***TE Connectivity Ltd. - CEO***

Probably I'm not going to get that detailed; but I will say we are -- that is another group. We do an awful lot of business through the channel, so we are -- and I am personally in touch with my peers there all the time. We are seeing pretty much all the same trends, which -- there is a little bit too much inventory in the channel. And adjustment for that we all expect.

They are more the eyes and ears for us. We really rely on that, that Q2 -- through Q2 we expect it to level out.

We are not seeing it drop off as much as we did over the last couple months, so we are seeing a flattening out, which is encouraging. And as long as end demand stays okay I would expect we will be through this in Q2.

Operator

Matt Sheerin, Stifel Nicolaus.

Matt Sheerin ***Stifel Nicolaus - Analyst***

Yes, thanks. So, just actually following up on the last question regarding expectations for share count for the year, because I think in answering Jim's question I think Terrence said that the buybacks are factored into the fiscal '12. I am just trying to figure out whether the buybacks you already did, or the $1.5 billion that is out there that is factoring that in. I am trying to get a share count for next year.

Terrence Curtin ***TE Connectivity Ltd. - EVP, CFO***

When you look at the first quarter, we are assuming around 430 million and for the year, it's around 425 million. And remember, how the mechanics work; it is an average. You don't get the full benefit next year of your share repurchases. Just how the math works.

Matt Sheerin ***Stifel Nicolaus - Analyst***

Yes, so you still have -- because if you had $1.5 billion, we are talking certainly more than 20 million shares, right?

Terrence Curtin ***TE Connectivity Ltd. - EVP, CFO***

Correct.

Matt Sheerin ***Stifel Nicolaus - Analyst***

Yes, okay. Then, could you talk a little bit more about where the cuts were made on the CIS area? How much more is to go?

Then I'm just interested in what your near- and long-term strategy with smartphones are. Because obviously that is a big market opportunity that you are not participating in deliberately in a big way. I am just trying to get a better understanding of your strategy there. Thanks.

Tom Lynch ***TE Connectivity Ltd. - CEO***

So let me answer the smartphones first. If I understood the last part of your question, just to clarify, I wouldn't say we are not participating deliberately. I think you know the story for us is -- we had a decent position in the handset business. When it shifted over the last couple of years more to smartphone, and there was a customer shift we didn't react to it very well. That is really -- I would call that execution issues on our part.

So we like the smartphone business. We believe there is no reason we can't do better. We have most of the right products.

Now we have a bit of a new approach to the market. We have had some success, as I said, in handsets in the past. So I think we know how to compete there; and I am a lot more confident now that we have stabilized our position.

So that is a market that we expect to do better in. It is not going to happen overnight, but there is no fundamental reason that we can't do better in that market.

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And the first part of your question was where we made the (multiple speakers)

Matt Sheerin ***Stifel Nicolaus - Analyst***

Just in terms of the cuts, yes.

Terrence Curtin ***TE Connectivity Ltd. - EVP, CFO***

We made three-quarters in manufacturing. So when you look at it, it's mainly manufacturing and then just a little bit on the overhead side.

Matt Sheerin ***Stifel Nicolaus - Analyst***

Okay, and is that it then for now?

Terrence Curtin ***TE Connectivity Ltd. - EVP, CFO***

Correct.

Tom Lynch ***TE Connectivity Ltd. - CEO***

Yes.

Matt Sheerin ***Stifel Nicolaus - Analyst***

Okay, thank you.

Operator

Craig Hettenbach, Goldman Sachs.

Craig Hettenbach ***Goldman Sachs - Analyst***

Yes, Tom, if I can follow up on the Automotive market, the 2X growth in the quarter relative to units. Can you touch a little more just on the content, what you are seeing? What you saw last quarter, and then as you look into 2012, what is really driving the dollar content gains for you in terms of what applications?

Tom Lynch ***TE Connectivity Ltd. - CEO***

Boy, you really have to go by region to get that. As you know, content is quite an aggregated average number. It's in the emerging markets; it is just an increase in features across-the-board.

It is more safety. It is more antilock brake systems. It is things like that.

It is reduction -- a drive to reduce weight, which actually helps us. Even though the size of our products go down, there tend to be more complexity.

In the Western world it is the gradual -- and it is still a small part of the business -- but it's the gradual increase in hybrid electric vehicles that as you know have a lot more content.

But overall, content hasn't moved that much. It continues to steadily march up; that 5% or 6% a year is what we see.

Then what we're really excited about, that is sort of the tipping point for HEV hits in the next three, five, six years. Then you will see a nice -- that average content will go up higher than that.

Craig Hettenbach ***Goldman Sachs - Analyst***

Okay. Then just staying with as you mentioned some share gains. Can you just talk about the pricing environment that you have seen recently and expectations as you go forward?

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Tom Lynch ***TE Connectivity Ltd. - CEO***

Well, as you know, with all the metal cost increases we faced over the last few years I think the industry in general -- certainly speaking for us in particular, we raised prices. Modest price increases. But those are in place now.

If we were to see another spike we are ready to do that again. It is to a point where when copper is raising 20% or 30% a year and gold 30% to 40% a year, we have to add that on. So I think that was an important accomplishment for our organization in the past year.

Craig Hettenbach ***Goldman Sachs - Analyst***

Okay, thank you.

Operator

William Stein, Credit Suisse.

William Stein ***Credit Suisse - Analyst***

Thanks. Good morning. I am wondering if you could dive a little bit into ADC/TE's performance in terms of the various strengths of that business? Is the strength that we are seeing driven by fiber deployments or the distributed antenna systems? And maybe if you can talk about the outlooks in those two parts of the business that would be helpful.

Tom Lynch ***TE Connectivity Ltd. - CEO***

I would say both. DAS or distributed antenna systems was very strong this year. That product is used (technical difficulty) demand coverage and capacity in and around buildings and in large venues like stadiums. So that was the strongest segment within ADC.

The other benefits we have seen are a number of big deals around the world where we now walk in with a very comprehensive end-to-end product line. So we certainly have seen strength outside the US of the combination of that. The first half of the year was a solid year in the traditional fiber copper in the US, and then it slowed down in the second half.

William Stein ***Credit Suisse - Analyst***

Great, thank you.

Tom Lynch ***TE Connectivity Ltd. - CEO***

Again for next year, I would say we expect another strong year in DAS; a little bit slower year in the fiber and copper connectivity.

Operator

Mike Wood, Macquarie.

Mike Wood ***Macquarie Research - Analyst***

Hi, good morning. Can you give us any color in terms of order trends intra-quarter just to bridge the gap with the 1.6% organic growth that you had in the quarter and the outlook for 2% to 6% growth next year? Was there signs of stabilization? Or more color there would be helpful.

Terrence Curtin ***TE Connectivity Ltd. - EVP, CFO***

Yes, Mike, I think when I commented on the order trends that we saw during the fourth quarter, they have continued here in October and I would say that they are stable, albeit in our CIS market at a lower rate. So when you look at it, the order trends in our Transportation unit remained stable and strong.

And our CIS businesses, they are at that lower rate, reflecting that distributor inventory correction. And in Networks, ex the North America carriers, really what we are seeing is this is typically a seasonal point in the year as they do slow down going into next quarter or second quarter.

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So ex the North American carriers, the orders are where we would expect them to be. So still the correction in CIS is the big thing that we continue to watch.

Keith Kolstrom ***TE Connectivity Ltd. - Senior Director IR***

And I think, Mike, for the full year, as Terrence mentioned earlier, the expectation is those CIS markets will start to improve in the second half. That is not something we are seeing in the order rates right now; but there is an expectation that that will improve.

Mike Wood ***Macquarie Research - Analyst***

Okay. Also in the consumer electronics space I saw a supplier of Nokia reported they have seen some better momentum there. Is that still a manufacturer that we would expect to see your trends in that segment follow? Are you seeing that benefit?

Tom Lynch ***TE Connectivity Ltd. - CEO***

Yes.

Terrence Curtin ***TE Connectivity Ltd. - EVP, CFO***

Yes, our trends would follow that manufacturer, clearly and certainly. Like we said, the business stabilized in the last quarter and was up sequentially. So yes, we would still continue to follow that.

Mike Wood ***Macquarie Research - Analyst***

Okay, thank you.

Operator

Sherri Scribner, Deutsche Bank.

Sherri Scribner ***Deutsche Bank - Analyst***

Hi, thank you. I just wanted to dig into your comments about CIS improving in the second half of next year. Is that primarily a comment about the market improving? Is that your share improving? Is that some actions in targeted markets that you are going after that changes in the second half? Just wanted to get a little more detail. Thanks.

Tom Lynch ***TE Connectivity Ltd. - CEO***

Sure, Sherri; thanks. I would say number one it is the inventory correction. That is the biggest thing.

Slight improvement in end markets. And I would expect a slight improvement in our consumer business. Nothing miraculous, but kind of steady, extent, beachhead kind of improvement.

Sherri Scribner ***Deutsche Bank - Analyst***

Okay. Great, thank you.

Operator

Steven Fox, Cross Research.

Steven Fox ***Cross Research - Analyst***

Thanks, good morning. Tom, you highlighted China in your opening remarks. I am assuming some of that is auto, as you said during the call. But is there anything else you would point to that is going on and driving growth in China recently?

And where would you say your profitability is in the region at this point? Is it at satisfactory levels?

Tom Lynch ***TE Connectivity Ltd. - CEO***

In terms of the last question, yes, very -- I feel very good about our profit margins there. And of course you have to run very fast to keep that.

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Clearly, our strongest position there is in automotive. If you think about China, there are kind of three submarkets is how I think about it. It's the markets driven by local consumption that are served by multinational competitors and local competitors. In Automotive, for example, we are strong with both.

Energy and telecom and enterprise, which is all local consumption, again I would say we are pretty strong in telecom, especially with our recent acquisition, although it is a very fragmented market. And in enterprise, which is also a fragmented market, but we have a strong market position.

And energy is an extremely fragmented market. We are growing with the market, but there's hundreds of competitors and we have a small market share.

The balance of the third piece of the way I think about it is a piece that it's really manufacturing for export. There is local demand; but PCs, handsets, DataComm infrastructure, all of that. And that really follows more the global demand patterns. We are there for lower cost manufacturing.

So I think that really follows our position in our other markets. So in consumer we are not so strong; we are solid in DataComm; we're pretty strong in industrial, for example. I don't know if that gives you a little bit of an answer to your question.

Steven Fox ***Cross Research - Analyst***

Yes, it does. But I was actually curious how those markets held up versus your expectations from a sales and orders standpoint. Was it about what you expected? Or are you seeing unusual strength or weakness in any of those areas in China?

Tom Lynch ***TE Connectivity Ltd. - CEO***

(multiple speakers) unusual. It slowed down in the middle of the year in all the markets. Automotive slowed down a bit but it picked up nicely in the end of the year, and we had a very strong, very solid level double-digit automotive growth in the fourth quarter.

I would say it is probably a little slower the second half of this year than the first in telecom infrastructure. A lot happened over the last few years; that has slowed down a bit. Again nothing -- it is not a rapid decline or anything, but definitely seeing a slowdown there.

And the balance of the markets are kind of following global demand.

Steven Fox ***Cross Research - Analyst***

Great. Thank you very much.

Operator

William Stein, Credit Suisse.

William Stein ***Credit Suisse - Analyst***

Thanks for taking my follow-up. What I wanted to ask also is about the weakness that you are seeing through distribution, whether you could characterize -- when you look at the point-of-sale, whether you can characterize how much of the weakness is strictly inventory-related versus end demand in that channel?

Tom Lynch ***TE Connectivity Ltd. - CEO***

It seems to be more inventory, I would say, because the trends for us through the channel on point-of-sale -- you know, the sellout are better than the sell-in, which is definitely a reflection of inventory adjustments. So I would say most of it appears to be inventory right now. I think we all expect once we get through that to get back into growth.

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William Stein ***Credit Suisse - Analyst***

So that is giving you optimism for second half when that reverses itself and you either see a rebuild of inventory or just selling to match sellthrough. Is that fair?

Tom Lynch ***TE Connectivity Ltd. - CEO***

Our guidance reflects that optimism, cautious optimism. I wouldn't say it is highly confident optimism, but cautious optimism based on the trends we see right now.

William Stein ***Credit Suisse - Analyst***

Just one other if I can. Distribution has been an area where I think you have been rationalizing the number of partners over the last year or two. Any update on that process?

Tom Lynch ***TE Connectivity Ltd. - CEO***

Yes, I am extremely pleased with our progress in the electronic distribution channel. Very pleased.

I speak regularly with my peers there. I think we are working together better than we ever have. Thanks for the question.

Operator

Amit Daryanani, RBC Capital Markets.

Amit Daryanani ***RBC Capital Markets - Analyst***

Just had a couple of follow-ups, guys. One on the Automotive side, I'm not sure if -- maybe I missed this. But could you quantify the benefit you had from some of the restocking impact from Japan? Is there any impact of that baked into the guide for the December quarter as well?

Terrence Curtin ***TE Connectivity Ltd. - EVP, CFO***

When you look at the December quarter, we assume some of that being ahead of production that we saw this past quarter will not reoccur. So that separation will be less. For example, in Asia this quarter, Amit, production was up 4%; we were up about 13%.

Some of that relates to the supply chain repriming itself. So I don't have an exact number on it, but we know that was (technical difficulty).

Amit Daryanani ***RBC Capital Markets - Analyst***

Got it. Then just given the fact we upped the dividend and (inaudible) the buyback for fiscal '12. How should we think about acquisitions going forward? Is next year going to be a bit more of a time you continue to digest ADC? Or is the appetite still there to do deals?

Tom Lynch ***TE Connectivity Ltd. - CEO***

No, our strategy remains the same, that we want to continue to strengthen our position. Most of our focus is through products, but largely also in markets if we don't have the right market position. And our priorities continue to be around industrial and energy and commercial there. So this doesn't change our strategy at all.

Amit Daryanani ***RBC Capital Markets - Analyst***

Got it. Thank you.

Operator

Wamsi Mohan, BoA Merrill Lynch.

Ruplu Bhattacharya ***BofA Merrill Lynch - Analyst***

Hi, this is Ruplu filling in for Wamsi. Most of my questions have been answered, but just on the SubComm business you mentioned $600 million for next year. I was just wondering if you can give us an update on the recent wins you talked about. The Pac Fibre win, how that is

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coming along.

And can you comment on the linearity of the $600 million over next year? Is it more back-end loaded?

Terrence Curtin ***TE Connectivity Ltd. - EVP, CFO***

Hey, Ruplu. When you look at it, first quarter, as I said during the script comments, was about $125 million is what we expect the first quarter to be. The Pac Fibre win is something that is assumed that contract comes into force; it is not in force yet. So it is one of the two contracts that we do assume will come into force.

But certainly our customer is still working through their funding side of that. So it is -- the year is more back-end loaded, to your question. First quarter will be $125 million and $600 million for the year.

Ruplu Bhattacharya ***BofA Merrill Lynch - Analyst***

Okay, great. Just one last clarification on the inventory correction in distribution. Did I understand correctly that you expect it to be a one-quarter correction and in 2Q it should be normalized? Or do you think it will extend into 2Q as well?

Tom Lynch ***TE Connectivity Ltd. - CEO***

It will extend through Q2 is our current estimate.

Ruplu Bhattacharya ***BofA Merrill Lynch - Analyst***

Okay. Thank you very much.

Tom Lynch ***TE Connectivity Ltd. - CEO***

If it plays out as we think, by the second half of Q2 we will see evidence that it is over.

Ruplu Bhattacharya ***BofA Merrill Lynch - Analyst***

Okay, thank you.

Operator

Thank you, and with that we will turn it back to Mr. Kolstrom. Please go ahead.

Keith Kolstrom ***TE Connectivity Ltd. - Senior Director IR***

Thanks, everyone. For any follow-up questions, please call Matt Vergare in IR. Thank you very much.

Operator

Thank you. Ladies and gentlemen, this conference will be available for replay after 10.30 a.m. today through midnight, November 10, 2011. You may access the AT&T executive replay system at any time by dialing 1-800-475-6701 and entering the access code 218704. International participants dial 320-365-3844. (Operator Instructions)

That does conclude our conference for today. Thank you for your participation and for using AT&T executive teleconference. You may now disconnect.

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