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Market Intelligence

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Earnings Call

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Call Participants

EXECUTIVES

Oliver K. Mihm
Executive VP & COO

Patrick John Jermain
Executive VP & CFO

Shawn Matthew Harrison
*Vice President of Investor
Relations*

Todd P. Kelsey
President, CEO & Director

ANALYSTS

Anja Marie Theresa Soderstrom
Sidoti & Company, LLC

David Neil Williams
*The Benchmark Company, LLC,
Research Division*

Jacob Moore
*KeyBanc Capital Markets Inc.,
Research Division*

James Andrew Ricchiuti
*Needham & Company, LLC,
Research Division*

Presentation

Operator

Ladies and gentlemen, thank you for joining us, and welcome to the Q3 2025 Plexus Earnings Conference Call. [Operator Instructions]

I will now hand the conference over to Shawn Harrison, Vice President of Investor Relations. Shawn, please go ahead.

Shawn Matthew Harrison

Vice President of Investor Relations

Good morning, and thank you for joining us today. Some of the statements made and information provided during our call today will be forward-looking statements, including, without limitation, those regarding revenue, gross margin, selling and administrative expense, operating margin, other income and expense, taxes, cash cycle, capital allocation and future business outlook.

Forward-looking statements are not guarantees since there are inherent difficulties in predicting future results, and actual results could differ materially from those expressed or implied in the forward-looking statements. For a list of factors that could cause actual results to differ materially from those discussed, please refer to the company's periodic SEC filings, particularly the risk factors in our Form 10-K filing for the fiscal year ended September 28, 2024, which is supplemented by our Form 10-Q filings and the safe harbor and fair disclosure statement in our press release.

We encourage participants on the call this morning to access the live webcast and supporting materials at Plexus' website at www.plexus.com, clicking on investors at the top of that page.

Joining me today are Todd Kelsey, President and Chief Executive Officer; Oliver Mihm, Executive Vice President and Chief Operating Officer; Pat Jermain, Executive Vice President and Chief Financial Officer. With today's earnings call, Todd will provide summary comments before turning the call over to Oliver and Pat for further details.

With that, let me turn the call over to Todd Kelsey. Todd?

Todd P. Kelsey

President, CEO & Director

Thank you, Shawn. Good morning, everyone. Please advance to Slide 3.

Plexus continues to gain momentum as we design, manufacture and service some of the world's most transformative products. For the fiscal third quarter, Plexus received national and regional recognition as a top workplace. We grew revenue sequentially. We generated solid new program wins, including opportunities supporting new customers with products aligned to exciting growth technologies. We delivered non-GAAP operating margin of 6%, matching our stated goal. We once again generated better-than-expected free cash flow. And finally, we reduced our debt while accelerating our share repurchase activity and concurrently increasing our share repurchase authorization.

Through our commitment to enabling customer success, we are seeing ongoing strength in new program wins and opportunities to gain share in support of delivering growth outpacing our end markets. In addition, our ongoing strategic investments that drive organizational and operational efficiency are generating strong profitability and free cash flow in support of creating long-term shareholder value.

Please advance to Slide 4. Revenue of \$1.018 billion met our guidance. As the fiscal third quarter progressed, we saw improved order activity from some industrial and European customers. In addition, we observed early signs of increasing European defense sector activity, a market we are uniquely qualified and positioned to support. This offset the impact of evolving program ramp time lines and tariff-related uncertainties on our market sectors.

Non-GAAP operating margin of 6.0% was near the high end of our guidance, increasing 30 basis points sequentially and meeting our stated goal of 6%, or greater operating margin. We have now achieved this goal and delivered operating margin at or above 6%, for 3 of the last 4 quarters.

Continued strong performance from our engineering solutions and sustaining services, operational efficiencies and volume leverage drove the sequential expansion. Non-GAAP EPS of \$1.90 exceeded our guidance, benefiting from strong operating performance, lower-than-anticipated interest expense and a favorable tax rate. Finally, we delivered \$13.2 million of free cash flow, significantly better than our expectations entering the quarter as we continue to drive strong working capital management.

Please advance to Slide 5. For the fiscal third quarter, we secured 41 new manufacturing programs, with \$250 million in revenue annually when fully ramped into production. Included in these wins, which were well balanced across all of our market sectors, our share gains resulting from our sustained focus, and zero defects and perfect delivery. We also added in each of our market sectors, new customers with products aligned to exciting growth technologies.

Furthermore, similar to last quarter, the revenue contribution and diversification of the wins performance of our engineering solutions was strong. Finally, our funnel of qualified opportunities expanded sequentially once again with balanced diversification across our market sectors, as well as a strong contribution from our sustaining services.

Please advance to Slide 6. At Plexus, our commitment to advancing sustainability is aligned to our value of innovating responsibly. We boldly drive positive change and promote a sustainable future for and through our people, our solutions and our operations, all of which is built on a foundation of trust and transparency.

Our people are at the heart of who we are and what we do. With that in mind, I'm incredibly proud to share that Newsweek listed Plexus as one of America's greatest workplaces in manufacturing 2025. Further, our Chicago site was recognized as one of the 2025 Best and Brightest Companies to Work For nationally and regionally. 2025 marks the 18th consecutive year the site has received regional recognition, and the third consecutive year receiving national recognition. Thank you to our incredible team members for living our values and enabling our success.

Our people are also at the heart of strengthening our communities. In celebration of Earth Day, our teams around the globe participated in a number of local volunteer activities, including community cleanup and recycling events. Here in Wisconsin, our team members recycled an amazing 8,000 pounds of electronics waste.

In June, we released our 2024 Sustainability Report, building trust through transparency, and highlighting the many ways we're committed to doing something more for our customers, our team members in the world. Finally, our commitment to customer success drove our historically strong customer satisfaction score to a 7-year high in our recently completed customer Net Promoter Survey. We believe this positive customer sentiment is manifesting into share gains and expanded outsourcing opportunities across our market sectors.

Please advance to Slide 7. For our fiscal fourth quarter, we are forecasting sequential revenue growth and expect to realize another strong quarterly financial performance. We anticipate delivering this revenue expansion through share gains, new program ramps and growth with new customers, overcoming modest end market demand, evolving new product ramp time lines and uncertainties created by tariffs.

Our fiscal fourth quarter guidance is for revenue of \$1.025 billion to \$1.065 billion. Non-GAAP operating margin of 5.7% to 6.1%, inclusive of greater incentive compensation and the opening of our new facility in Penang, Malaysia. And non-GAAP EPS of \$1.82 to \$1.97. At the midpoint, our fiscal fourth quarter would result in impressive non-GAAP EPS growth of 26% for fiscal 2025. Additionally, we are now forecasting approximately \$100 million of free cash flow for fiscal 2025, which would represent cumulative 2-year free cash flow generation of nearly \$450 million.

As previously noted, in recognition of our robust free cash flow performance, and our long-term value creation potential, we accelerated our share repurchase activity during the fiscal third quarter, while

also engaging with our Board of Directors to approve a follow-on authorization of \$100 million, creating additional shareholder value. Finally, while early, for fiscal 2026, we currently anticipate delivering healthy year-over-year revenue growth from each of our market sectors without assuming end market demand improvement. We also anticipate sustaining our strong operating margin and free cash flow performance.

In closing, we are committed to creating long-term shareholder value. Plexus continues to gain momentum through enabling customer success, and through focused initiatives that drive organizational and operational efficiency. We're bullish on the growth opportunities our solutions and our market sectors provide. Our strategy is creating opportunities to sustain strong financial performance, and gain share in support of delivering growth outpacing our end markets.

I will now turn the call to Oliver for additional analysis of the performance of our market sectors. Oliver?

Oliver K. Mihm
Executive VP & COO

Thank you, Todd. Good morning. I will begin with a review of the fiscal third quarter performance of each of our market sectors, our expectations for each sector for the fiscal fourth quarter and some directional sector commentary for fiscal 2026. I will also review the annualized revenue contribution of our wins performance for each market sector and then provide an overview of our funnel of qualified manufacturing opportunities.

Starting with our Aerospace and Defense sector on Slide 8. Revenue increased 6% sequentially in the fiscal third quarter, meeting our expectation of a mid-single-digit increase. New program ramps contributed to the performance. We expect revenue for the Aerospace and Defense sector to be flat in the fiscal fourth quarter, as improving defense subsector demand and new program ramp revenue balances muted performance from the other subsectors.

Our wins for the fiscal third quarter for the Aerospace and Defense sector were \$51 million, the best in more than 2 years, and nearly a record result. Our reputation for customer service excellence and our highly collaborative engagement yielded a substantial award with a new customer in the space subsector for our facility in Kelso, Scotland. Strength of execution yielded a number of follow-on awards and new programs with existing customers in our Defense and Space subsectors. Our robust growth outlook for fiscal 2026 is supported by a combination of new program ramps, new customer additions, and modest market growth, that collectively drive strong defense sector growth and a return to growth in commercial aerospace.

Please advance to Slide 9. Revenue in our Healthcare/Life Sciences market sector was up 2% sequentially for the fiscal third quarter, below our expectations of a mid-single-digit increase. This variance was due to a customer design update that resulted in a temporary production delay for their program. For the fiscal fourth quarter, we expect the Healthcare/Life Sciences market sector to be up low single digits, driven by multiple ongoing program ramps.

Fiscal third quarter Healthcare/Life Sciences sector wins of \$116 million included a substantial follow-on award from an existing customer, with the global rollout of a platform that treats atrial fibrillation. Our historical strength of execution with both new product launches, and ongoing production for the device -- of the device for its U.S. rollout enabled the win. This program will be built in our Chicago facility.

We also won work with a new customer for our sustaining services organization. Our work will support our cardiovascular platform and be performed in our Guadalajara, Mexico facility. Our Neenah, Wisconsin facility won a substantial award with a new customer for a surgical generator product used in a novel new cancer treatment. Our ability to effectively collaborate and develop trust during the quoting process contributed to the win. As we look to the next fiscal year, revenue contributions from both ongoing and new program ramps support our strong growth outlook.

Advancing to the industrial sector on Slide 10. Revenue was up 4% sequentially in the fiscal third quarter. The result was in line with our expectation of a low single-digit increase. Inside the quarter, demand increases and the broadband communications and energy markets offset demand pushouts in our semicap subsector.

Our fiscal fourth quarter outlook for the industrial sector of a low single-digit increase is supported by strength of orders for legacy equipment and the broadband communications subsector and new program ramp revenue in both the semicap and energy subsectors. The industrial market sector wins for the fiscal third quarter were strong at \$83 million. This marks a 5 quarter high for the sector. Continued strength of execution and our ability to redesign for cost reduction yielded wins with 3 of our top semi-cap customers. These products will be built in our Penang, Malaysia and Guadalajara, Mexico campuses.

Wins also included a substantial award from a new customer for an automated vehicle inspection system. This product will be assembled in our Guadalajara, Mexico facility. Our positive fiscal 2026 growth outlook is supported by the better-than-market growth rate we anticipate in the energy and semi-cap subsectors as a result of continued share gains and new program ramps.

Please advance to Slide 11 for a review of our funnel of qualified manufacturing opportunities. The funnel qualified manufacturing opportunities is up 4% sequentially, and robust at \$3.6 billion. I'm pleased with the increasing breadth of opportunities we are seeing in our funnel across engineering, manufacturing and sustaining services.

In summary, our focus on delivering excellence and creating customer success continues to contribute to strong wins performance. Our new program ramps, share gains and new customer additions are contributing to a healthy outlook for our growth in the coming fiscal year. As Todd previously noted, this sentiment is without assuming improvements in the current end market environment.

I will now turn the call over to Pat. Pat?

Patrick John Jermain

Executive VP & CFO

Thank you, Oliver, and good morning, everyone. Our fiscal third quarter results are summarized on Slide 12. While revenue was at the midpoint of our guidance, gross margin at 10.1% was slightly above the midpoint due to a favorable mix of service offerings and better fixed cost leverage. Productivity improvements associated with our operational efficiency initiatives, continue to benefit our manufacturing sites.

Selling and administrative expense of \$50 million was at the low end of our guidance, and consistent with expectations as a percentage of revenue. Non-GAAP operating margin of 6% was towards the top end of our guidance due to the strength in gross margin. Nonoperating expense of \$3.8 million was favorable to expectations due to lower-than-anticipated interest expense. Non-GAAP diluted EPS of \$1.90 exceeded our guidance due to the items mentioned and a favorable tax rate. The lower tax rate was primarily attributed to a state tax law change, and allowed for the release of a valuation allowance against deferred tax assets.

Turning to our cash flow and balance sheet on Slide 13. As shown across these financial metrics, we continue to improve our performance and liquidity. As a result, we delivered \$27 million in cash from operations and spent \$14 million on capital expenditures, generating free cash flow of approximately \$13 million. This performance exceeded expectations and positions us well to meet our increased fiscal 2025 free cash flow projection of approximately \$100 million.

During the quarter, we continued to return cash to shareholders through our share repurchase program by acquiring approximately 143,000 shares of our stock for \$18.4 million. As of today, we have completed the fiscal 2025 authorization of \$50 million, and have now begun executing upon the \$100 million authorization approved by our Board last quarter.

Similar to the prior quarter, we ended the fiscal third quarter in a net cash position. We had \$45 million outstanding under our revolving credit facility, with \$455 million available to borrow. As we had anticipated, our strong balance sheet position allowed us to use excess cash and minimal borrowing under the revolver, we paid a \$100 million of private placement notes, which matured last month.

For the fiscal third quarter, we delivered return on invested capital of 14.1%, which was 520 basis points above our weighted average cost of capital. Our invested capital base is significantly lower than the prior year due to our efforts to drive sustained improvement in working capital. This, combined with improved

operating performance, drove the expansion of ROIC over the prior year, and represents the highest ROIC in nearly 4 years. Cash cycle at the end of the fiscal third quarter was 69 days, consistent with expectations, and 1 day higher than the fiscal second quarter.

Please turn to Slide 14 for details on our cash cycle. Along with the sixth consecutive quarterly reduction in gross inventory dollars, we experienced a 4-day improvement in inventory days. This is another quarter of our team demonstrating the relentless focus on driving working capital initiatives. For days in advance payments, we experienced a 4-day reduction, with a net of \$19 million being returned to customers during the quarter. As Todd has already provided the revenue and EPS guidance for the fiscal fourth quarter, I'll review some additional details, which are summarized on Slide 15.

Fiscal fourth quarter gross margin is expected to be in the range of 9.8% to 10.1%. At the midpoint, gross margin would be slightly lower than last quarter. While gaining fixed cost leverage on anticipated sequential revenue growth, some additional variable incentive compensation expense is expected, along with a slight margin drag from the startup of our new Malaysian facility. We expect selling and administrative expense in the range of \$50 million to \$51 million, which is fairly consistent with the prior quarter. Note that this estimate is inclusive of approximately \$6.3 million of stock-based compensation expense.

Fiscal fourth quarter non-GAAP operating margin is expected to be in the range of 5.7% to 6.1%, exclusive of stock-based compensation expense. Non-operating expense is anticipated to be approximately \$4.5 million, a reduction of nearly 50% from the prior year fiscal fourth quarter. As we have shared before, our strong cash flow has resulted in much lower debt levels and associated interest expense. Since last year's fiscal third quarter, we have reduced our total debt by over \$200 million.

For the fiscal fourth quarter, we are expecting to release additional tax reserves, following the closure of the statute of limitations for certain tax years. As such, we are estimating an effective tax rate between 8% and 10%. While our fiscal 2025 effective tax rate will be lower due to reserve releases, a more normalized rate for us moving forward is in the upper teens. Diluted shares outstanding are expected to be 27.5 million.

Our expectation for the balance sheet is that working capital investments will slightly reduce compared to the fiscal third quarter. With this improvement, combined with our anticipated sequential revenue growth, we expect our cash cycle days to improve compared to the fiscal third quarter. Hence, we are guiding a cash cycle range of 64 to 68 days.

Fiscal 2025 capital spending is expected to be in the range of \$80 million to \$100 million, lower than our previous guidance, as certain payments related to our new facility in Malaysia will now be made early in fiscal 2026. Once again, given our improved performance through the first 3 quarters of the fiscal year, we now anticipate generating approximately \$100 million of free cash flow for fiscal 2025. With that, Nicole, let's now open the call for questions.

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of David Williams with The Benchmark Company.

David Neil Williams

The Benchmark Company, LLC, Research Division

Can you hear me okay?

Todd P. Kelsey

President, CEO & Director

We can, David.

David Neil Williams

The Benchmark Company, LLC, Research Division

So maybe first, the execution has been very strong financially. But I guess my question is on the semi cap. You talked about some of those pushouts there. And can you provide maybe a little more color there? Is that more on maybe a demand side or forecast changes? Or is that more driven by maybe changes to that product ramp or the product itself?

Oliver K. Mihm

Executive VP & COO

David, this is Oliver. I'll take that. That had to do with just some idiosyncrasy specific to those programs. And I think it's important to note that, that push out is just moving the revenue to the right. It's not perishable demand. And so from an overall subsector perspective, we also noted that our Q4 is [buoyed] by a number of new program ramps in the semi cap subsector. That's how we do that.

David Neil Williams

The Benchmark Company, LLC, Research Division

That's great. And then maybe just on the aerospace and defense side. Typically, when you see the semi cap that has the push and pulls, you're able to offset that through the strength in other segments. Just kind of curious what you're seeing on the Defense side -- or excuse me, the Aerospace side? And are you seeing the pull in from those aerospace customers as you would have anticipated?

Todd P. Kelsey

President, CEO & Director

Yes. We're still not seeing, David, the pull-in from Boeing or Airbus for the increased production ramps. So we'd expect that to happen at some point as we move forward, but the demand just hasn't flown through yet to us.

We are seeing strong demand within our Defense and our Space subsectors, though, and particularly Defense. And as I mentioned in the prepared comments as well, too, we're starting to see signs of increased European defense demand as well, which we view as a great opportunity for us moving forward.

Shawn Matthew Harrison

Vice President of Investor Relations

And David, it's Shawn. Just one thing to be clear. Our preliminary outlook into fiscal '26 does not include a recovery in production from current rates from Boeing and Airbus and the impact to our end customers. So it's steady state. So if that were to change, that would positively affect our view into 2026.

Operator

Your next question comes from the line of Jim Ricchiuti with Needham & Company.

James Andrew Ricchiuti

Needham & Company, LLC, Research Division

Can you hear me okay?

Todd P. Kelsey

President, CEO & Director

Yes. Now we can hear you, Jim.

James Andrew Ricchiuti

Needham & Company, LLC, Research Division

Terrific. A couple of questions. Just as we think about the industrial business, it sounds like, at least as we went through the -- most of the first 9 months of the year, you were seeing pretty healthy demand in semicap. So I'm curious, your implied guidance for Q4, what does that kind of assume for semicap in fiscal '25, just given that, that is a big part of the industrial business? Is that?

Todd P. Kelsey

President, CEO & Director

It is a big part. It's close to half of our industrial business. Now we have seen the forecast weaken a bit from a quarter ago. So while we had been talking about revenue growth in the mid-teens for semicap for fiscal '25, it's looking like it will be low double digits, call it, right now. So we had some of the pushouts that Oliver had talked about in some of the semicap business that we have.

Now within the broader industrial, though, we are starting to see some signs of demand recovery in certain subsectors, Energy is one that we've highlighted in particular. And we've got a real strong position there and good growth prospects as we move forward.

James Andrew Ricchiuti

Needham & Company, LLC, Research Division

Got it. That's helpful, Todd. Pat, maybe I wanted to just turn to Malaysia. You talked about some of the start-up expense, the potential for some of that to be a drag in Q4.

I'm wondering if you can give us a sense, or help us size that? And how you see that going forward in the early part of fiscal '26?

Patrick John Jermain

Executive VP & CFO

Yes. It's going to be a pretty minimal drag in Q4. And what we've seen in the past when we've started up facilities, especially in Malaysia, is how quickly we can bring those sites to profitability. Part of it is the campus environment we've got, where we can move programs pretty easily into new sites. So I think it's a 4-quarter period to get us to profitability and closer to our corporate average.

Todd P. Kelsey

President, CEO & Director

Yes. Just to add a little bit of additional color to that, Jim. We have that site seated with a significant amount of new business already. So the ramp to profitability will be quick. I think in terms of a small number of quarters. And even to get to corporate targeted profitability levels, I wouldn't expect it to take very long.

James Andrew Ricchiuti

Needham & Company, LLC, Research Division

And maybe you could just remind us what the focus -- if there's a sector-focused -- market sector focus for this site?

Todd P. Kelsey

President, CEO & Director

Yes. Well, the initial focus is going to be semicap, but it will be broad-based though, and we'll quickly move on to healthcare within that site. And in the future, it could take on other sectors as well.

Operator

[Operator Instructions] Your next question comes from the line of Steve Barger with KeyBanc Capital Markets.

Jacob Moore

KeyBanc Capital Markets Inc., Research Division

This is Jacob Moore on for Steve Barger today. Just first from us, knowing that you're ramping that new facility in Malaysia, can you just comment on current capacity and utilization across the business? Where does utilization stand today? And roughly what sort of revenue run rate could you hit if you're at your target yield?

Oliver K. Mihm

Executive VP & COO

Yes, sure. from an overall utilization perspective, the way we look at our capacity is that if we fill that up, we will be able to execute an excess of \$5 billion. And I would say that utilization rate relative to where we are at today is pretty consistent across all of our regions.

Jacob Moore

KeyBanc Capital Markets Inc., Research Division

Understood. That's helpful. And then the second one from us. You mentioned that Engineering Solutions did well in the quarter. Can you just sort of expand on your strategy for that part of your business and maybe provide a little bit of basic info for it? Like what size is it today? Where do you want it to be? And what's the relative margin profile look like?

Todd P. Kelsey

President, CEO & Director

Sure. So where I'd start with engineering is the first thing I'd say is we view it as one of the most significant differentiators for Plexus. I mean we've historically -- we've had engineering and product development and been well versed in it throughout our history. In fact, I even started in our engineering over 30 years ago. So it gives you an idea of the longevity of that business, something that we consider strategically important.

About 1/3 of the revenue that we have in manufacturing, we've had a direct impact on in -- through our engineering services. Right now, that business is in excess of \$100 million. We don't give a lot of specifics about it, but excess of \$100 million, having a really excellent year from a standpoint of both growth and profitability within the business.

One of the other real keys to our engineering business that's been exciting over the course of this past fiscal year, in particular, has been the diversification we've achieved throughout the business. Historically, we've had a strong focus within our health care business in particular. We've seen this expand into Aerospace and Defense. Industrial semicap as well as life sciences over the course of the past year in more meaningful ways. So the diversification is particularly exciting.

Patrick John Jermain

Executive VP & CFO

Yes. And from a margin standpoint, we can typically see double the manufacturing margin, so a very profitable business for us.

Operator

Your next question comes from the line of Anja Soderstrom with Sidoti.

Anja Marie Theresa Soderstrom
Sidoti & Company, LLC

Can you hear me?

Todd P. Kelsey
President, CEO & Director

Yes, we can now Anja.

Anja Marie Theresa Soderstrom
Sidoti & Company, LLC

Okay. Sorry. It's a new system that I am not used to. So I'm just curious within Malaysia, when that's fully ramped, the margins there, is that above corporate average? Or how does the margin compare to the rest of the business?

Todd P. Kelsey
President, CEO & Director

Yes. Generally, our Malaysia sites performed quite well.

Patrick John Jermain
Executive VP & CFO

Yes.

Anja Marie Theresa Soderstrom
Sidoti & Company, LLC

Okay. And then we haven't really touched on the tariffs. What are you sort of seeing there? Or have you seen any sort of [indiscernible] to orders or -- what can we expect?

Todd P. Kelsey
President, CEO & Director

There hasn't been a lot of change from the previous call, or the previous quarter with respect to tariffs. We're still seeing customers in a wait-and-see mode. Again, just to remind everybody on the call, we passed tariff costs on to our customers. And we haven't gotten pushback on that front. We think we're really well positioned to help our customers with a lot of strength in our trade compliance organization. We've invested heavily in there in people and process and tools.

And from a standpoint of demand, we've only seen maybe one customer pull in any demand, and we've seen pretty limited pushouts of demand. So -- so demand isn't really moving much because of the tariffs as of this point.

One of the things that we have done is within our Mexico operations, there's been a big push to drive for USMCA compliance within our -- for our customers' products, and we're north of 80% right now, which we think is really an excellent number that we have on that front.

Anja Marie Theresa Soderstrom
Sidoti & Company, LLC

Okay. I'm just going to squeeze in one more about the cash cycle days. Are you still expect that to come down to the low 60s eventually?

Patrick John Jermain
Executive VP & CFO

Yes. Yes. Well, that's kind of where we're guiding Q4 to mid-60s. I think there's opportunity as we move into fiscal '26 with efforts we're doing around inventory. We'll see gross inventory days, I think, still come

down. There will be a return of deposits associated with some of those reductions. But I think, Anja, being in the mid- to low 60s is very realistic for us.

Operator

[Operator Instructions] We have a follow-up question from David Williams at The Benchmark Company.

David Neil Williams

The Benchmark Company, LLC, Research Division

Maybe, Todd, just wanted to ask on -- or Pat, on the new tax legislation. Is there anything there that changes your point of view on maybe the CapEx? I know you're pushing some of that sounds like more for timing on Malaysia. But does that change anything from maybe the -- on the tax side of things in terms of CapEx or the way you're thinking about the business in any way?

Patrick John Jermain

Executive VP & CFO

Not from a CapEx standpoint. Obviously, there's a lot of strategies we're looking at to minimize the effect of the global minimum tax, but not necessarily anything we're seeing around capital spending at this point.

Todd P. Kelsey

President, CEO & Director

One of the things, David, that we are looking at more from a market standpoint, or maybe a couple of things, is with the expensing of R&D, there may be some potential that could have some positive pull-through for our engineering solutions, we believe. There's also some components of the bill that are around rural health and providing rural health as well as potentially some pull forward of clean energy demand, given some of those credits going away in the future. And not to mention the increased defense budget that's out there. So there's some reasonable market inputs that could be positive. So we haven't seen any of that flow through as of yet though.

Operator

We have a follow-up question from Jim Ricchiuti with Needham & Company.

James Andrew Ricchiuti

Needham & Company, LLC, Research Division

Just a question on the health care life science part of the business. It sounds like you're looking at fiscal '26. You're optimistic of a pickup in growth. That's going to be more difficult part of the business to forecast. Hasn't it been? It seems -- and this is not just you. We are hearing this from other players as well, including the OEMs. Just given -- I'm trying to get a sense as to what gives you the confidence about fiscal '26?

Oliver K. Mihm

Executive VP & COO

Yes, Jim, I'll offer and refer back to my prepared remarks that the strength of ongoing and new program ramps gives us, A, contributes to our Q4 outlook. Also that carries into F '26. Two other things I'll mention is two new customers added this quarter, so that's expected to provide us some additional tailwind as we work through F '26.

And then the other thing I'll talk about is we talked earlier about our engineering design services. And they typically act as a leading indicator for us. And while we had seen -- if I reference back to a few quarters ago and the inventory correction that, that sector went through, health care kind of got out ahead of Life Sciences.

And then more recently, we've seen an increase in activity and discussion with both new customers and existing customers, with our engineering design services, relative to life sciences. So given that that's a leading indicator that gives us further optimism as we anticipate strong growth in F '26.

James Andrew Ricchiuti

Needham & Company, LLC, Research Division

That's helpful. And just maybe one quick follow-up. You alluded to the potential for stronger defense in Europe. What are you seeing there? And is that -- how big is that in terms of the defense business overall? And as you look at fiscal '26, do you see that as a bigger driver?

Oliver K. Mihm

Executive VP & COO

Yes. I'll just start by what we're seeing there is certainly an increase in activity and interest. And then also I'll highlight back to the fact that we just added a new sector -- or sorry, a new customer in that sector. I guess the specifically space whenever I was talking earlier and contributing to our optimism that we're going to see additional activity in Europe in Defense.

Shawn Matthew Harrison

Vice President of Investor Relations

And Jim, it's Shawn. A couple of things. We do -- Defense in aggregate is maybe a little more than 1/3 of that sector. European defense is a smaller component of the mix. But we do forecast in 2026, really robust growth overall for our defense exposure.

Our team just came back from the Paris Air Show a couple of weeks ago. Significantly more conversations about how we can support European defense companies. With our strong footprint in region, as we mentioned, some good initial gains here, we think there's a significant amount of opportunities. There's different TAMs out there that have been discussed. But given how we play, and where our footprint is in that market, we think we're strongly positioned to capture market share and support the upside potential out there.

Operator

There are no further questions at this time. I will now hand the call back over to Todd Kelsey, President and CEO, for closing remarks.

Todd P. Kelsey

President, CEO & Director

All right. Thank you, Nicole. I'd like to thank the shareholders, investors, analysts and our Plexus team members who joined the call this morning.

In closing, I'd like to reiterate that we're poised for a solid finish to fiscal 2025, with quarterly sequential revenue growth in the back half of the year, strong operating and free cash flow performance, as well as exceptional EPS growth. We're positioned to carry this momentum into fiscal 2026 and anticipate another good year. Thank you again, and have a nice day.

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