

S&P Global
Market Intelligence

Plexus Corp. NasdaqGS:PLXS

Earnings Call

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Presentation

Operator

Ladies and gentlemen, thank you for joining us, and welcome to the Plexus Fiscal Fourth Quarter and Fiscal Year-end 2025 Conference Call. [Operator Instructions].

I will now hand the conference over to Shawn Harrison, Vice President of Investor Relations. 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, 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 now turn the call over to Todd Kelsey. Todd?

Todd P. Kelsey

President, CEO & Director

Thank you, Sean. Good morning, everyone. Please advance to Slide 3. Fiscal 2025 was an outstanding year for Plexus, highlighted by our ongoing delivery of a differentiated value proposition for our customers that created the opportunity for Plexus to expand customer relationships and gain market share. Our robust and well-balanced new program win results across our solutions that will support future growth.

Our team's dedication to innovating responsibly to help create a better world. In our strong financial performance with a 40 basis point expansion of non-GAAP operating margin, 30% non-GAAP EPS growth, another year of tremendous free cash flow generation and robust ROIC.

I'm excited that the momentum gained during fiscal 2025 across these areas positions Plexus during fiscal 2026 to deliver revenue growth in excess of our end markets through new program ramps, inclusive of market share gains, accelerated revenue growth, positioning Plexus toward our 9% to 12% goal, strong financial performance with a focus on achieving our goal of a 6% non-GAAP operating margin while also investing in talent, technology, facilities and advanced capabilities to support sustained future revenue growth and greater operational efficiency and robust free cash flow generation that will be deployed to create additional shareholder value.

Please advance to Slide 4. Revenue of \$1.058 billion approach the high end of our guidance range, marking our third consecutive quarter of sequential growth. Our team ability to support late quarter demand upside from semi cap and energy customers more than offset minor delays in new program transition in our aerospace and defense market sector.

Non-GAAP EPS of \$2.14 substantially exceeded our guidance due to favorable discrete tax items with in-line non-GAAP operating margin of 5.8%. We expanded non-GAAP operating margin by 40 basis points and non-GAAP EPS over 30% in fiscal 2025 as compared to fiscal 2024.

Finally, we delivered fiscal fourth quarter free cash flow of \$97 million, resulting in fiscal 2025 free cash flow of \$154 million, an amount that substantially exceeded our projections. We have now generated \$495 million of free cash flow over the past 2 fiscal years while deploying excess cash to reduce our borrowing and accelerate our share repurchase activity. Please advance to Slide 5. For the fiscal fourth quarter, we secured 28 new manufacturing programs, worth \$274 million in revenue annually when fully ramped into production. Included in these wins were expanded relationships with commercial aerospace customers, growth in our exposure to unmanned aircraft, expansion of share with existing health care, life sciences and industrial customers, and notable market share gains within semi cap. For fiscal 2025, our team generated 400 -- 141 manufacturing wins, representing \$941 million in annualized revenue. In addition, efforts to diversify our engineering solutions engagements successfully drove increased wins for fiscal 2025, including a record result in Aerospace and Defense.

Finally, our sustaining services team achieved record wins for the fiscal year, positioning the offering for stronger future financial performance. In addition, while producing the strong wins performance, we expanded our funnel of qualified opportunities versus the prior quarter and year-over-year. Please advance to Slide 6.

At Plexus, we are committed to boldly driving positive change and promoting 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. The following are recent highlights of how Plexus lives our value of innovating responsibly. In September, GE Vernova presented Plexus its Supplier Innovation Award at the Gas Power Supplier Conference in Shanghai, China. This award recognized Plexus' strategic engagement and collaboration in supporting a successful program transition to our facility in Xiamen, China, well ahead of GE Vernova's original time line. Next, as we reflect on the accomplishments of fiscal 2025 and our guiding principle that people are at the heart of who we are and what we do.

I'm thrilled to share that our global team members completed over 32,000 volunteer hours during the fiscal year. This incredible achievement is a 47% increase compared to fiscal 2024 and serves as a powerful testament to how our team members live our vision of building a better world. Additionally, in fiscal 2025, we granted \$1.4 million to global nonprofits through our Plexus Community Foundation, deepening our connections to causes and organizations in the communities where we live and work.

Further, through a focused effort across our operations, we reduced our waste to landfill by over 30% globally in fiscal 2025, far exceeding our goal. This achievement is underscored by a remarkable 8 sites reaching zero waste to landfill status, which accounts for over 40% of our manufacturing sites. Finally, we reduced absolute Scope 1 and 2 emissions by over 10% across our global manufacturing sites versus our fiscal 2023 baseline.

This reduction represents the second consecutive year of exceeding our emissions reduction goal. I'm incredibly proud of and grateful for the contributions of our global team members as they deliver a consequential environmental and social impact in support of our vision of building a better world.

Please advance to Slide 7. For our fiscal first quarter, we are guiding revenue of \$1.05 billion to \$1.09 billion, non-GAAP operating margin of 5.6% to 6.0%, and a non-GAAP EPS of \$1.66 to \$1.81. With modest end market growth across the majority of our sectors, we expect to deliver revenue growth through ongoing new program ramps, inclusive of market share gains.

In addition, during the fiscal first quarter, we will continue to invest in talent, technology, facilities and advanced capabilities to expand our industry-leading solutions, drive greater long-term operational efficiency and prepare for accelerated fiscal 2026 revenue growth. For fiscal 2026, we anticipate another year of strong operational and financial performance.

Currently, we expect to deliver revenue growth in excess of our end markets, realizing year-over-year growth in each of our market sectors while accelerating momentum toward our 9% to 12% revenue

growth goal. We also anticipate delivering another strong year of operating margin and free cash flow performance even as we continue to make significant investments to increase our long-term competitiveness. In closing, thank you to our global team for making fiscal 2025 outstanding through your support of our customers, communities and each other.

We're excited to leverage this momentum during fiscal 2026 into generating growth in excess of our end markets, delivering strong financial performance and creating long-term shareholder value.

I will now turn the call over 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 fourth quarter performance of each of our market sectors. Our expectations for each sector for the fiscal first quarter and 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 decreased 6% sequentially in the fiscal fourth quarter, below our expectation of flat revenue. Minor delays in the timing of new program ramps contributed to the performance. Fiscal 2025 saw essentially flat revenue for the Aerospace and Defense sector as various new product launch delays and inventory adjustments in the commercial aerospace supply chain, more than offset double-digit growth in the defense and space subsectors.

For the fiscal first quarter, we expect revenue for the Aerospace and Defense sector to be up mid-single digits from strength and new program ramps within the commercial Aerospace, Defense and unmanned aircraft subsectors. Our wins for the fiscal fourth quarter for the Aerospace and Defense sector were \$54 million. This is the strongest wins performance for the sector since the fiscal first quarter of 2021.

Our Boise, Idaho site won a follow-on award from an existing customer in our unmanned aircraft subsector based on the strength of the partnership that we've built with this customer. We also captured share gain through 2 new programs in the commercial aerospace subsector that were awarded to our team in Penang, Malaysia. Our robust growth outlook for fiscal 2026 is supported by strong defense sector growth, new program ramps and unmanned aircraft subsector and a return to growth in commercial aerospace associated with new program ramps and the expectation of modest market growth.

Please advance to Slide 9. I Revenue in our Healthcare/Life Sciences market sector was up 1% sequentially for the fiscal fourth quarter, aligned to our expectation of a low single-digit increase. Fiscal 2025 for our Healthcare/Life Sciences sector saw a 5% revenue increase based on strength from the imaging and monitoring subsectors. New program ramp revenue and customer demand increases with previously ramped products contributed to the result.

For the fiscal first quarter, we expect the Healthcare/Life Sciences market sector to be up high single to low double digits, driven by multiple ongoing program ramps, and strengthening customer demand and the monitoring and imaging subsectors. Fiscal fourth quarter Healthcare/Life Sciences sector wins of \$55 million included a follow-on award for the remediation and repair of a therapeutics product for our Guadalajara, Mexico campus. Our sustaining services team's exceptional quality and delivery performance drove the win. Our Aradia, Romania facility is welcoming a new customer to Plexus as we were awarded the assembly for an AI-powered digital cell analysis platform. Our proactive, flexible and collaborative engagement through the quoting process as well as a strong cultural alignment between the 2 organizations contributed to the win.

As we look to the next fiscal year, revenue contributions from ongoing new program ramps as well as improved end market demand, support our robust growth outlook. Advancing to the industrial sector on Slide 10. Revenue was up 11% sequentially in the fiscal fourth quarter. The result exceeded our guidance

for up low single digits, increased end market demand for specific customers in the semi cap, broadband communications and energy subsectors more than offset various other demand changes. Revenue was flat for fiscal 2025, low double-digit growth in the semi-cap subsector, offset reductions in industrial equipment and vehicle electrification. Our fiscal first quarter outlook for the industrial sector of a high single-digit decrease is driven by seasonality within our energy subsector and generally muted near-term demand. The industrial market sector wins for the fiscal fourth quarter were strong at \$165 million.

This marks a 9-quarter high for the sector. Our semi cap wins were robust, including an award for 2 substantial programs from an existing customer for our Bangkok, Thailand facility. Continued operational excellence contributed to the award which included share gains on a growth platform. Our Appleton, Wisconsin facility was awarded the assembly of a high-voltage complex product supporting the global rail industry.

The flexibility of our engagement and supply chain solutions contributed to the award from this new customer. Our modest growth outlook for the industrial sector for fiscal 2026 is supported by strength in both the semi cap and energy subsectors offsetting otherwise muted demand. Please advance to Slide 11 for a review of our funnel of qualified manufacturing opportunities. The funnel of qualified opportunities is up 2% sequentially and positive performance given the strength of quarterly wins and robust at \$3.7 billion, inclusive of a record high value of aerospace and defense sector opportunities.

The sector's momentum is further supported by a record high aerospace and defense funnel for our engineering solutions, reflecting the continued progress of our diversification efforts. In summary, our continued focus on delivering excellence and creating customer success is being recognized by our customers. Ongoing and new program ramps market share gains and specific subsector end market growth supports our view that we will deliver revenue growth in excess of our end markets and accelerate growth for fiscal 2026 toward our 9% to 12% goal.

I'll now turn the call over to Pat. Pat?

Patrick John Jermain
Executive VP & CFO

Thank you, Oliver, and good morning, everyone. Our fiscal fourth quarter results are summarized on Slide 12. Gross margin of 9.9% was consistent with our guidance. As anticipated, gross margin was slightly lower than the fiscal third quarter due to mix and additional incentive compensation expense. At the same time, we experienced improved fixed cost leverage from higher revenue and continued productivity gains realized across our manufacturing sites. Selling and administrative expense of \$51.7 million was slightly above our guidance due to additional incentive compensation expense, mainly driven by our strong performance. As a percentage of revenue, SG&A was consistent with the fiscal third quarter. Non-GAAP operating margin of 5.8% was within our guidance range. Nonoperating expense of \$3.4 million was favorable to expectations due to lower-than-anticipated interest expense and foreign exchange losses. .

Non-GAAP diluted EPS of \$2.14 exceeded the top end of our guidance due to the items mentioned and a favorable tax rate. 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. We were extremely pleased with our free cash flow performance as we wrapped up the fiscal year. For the fiscal fourth quarter, we delivered \$132 million in cash from operations and spent \$35 million on capital expenditures, generating free cash flow of approximately \$97 million.

Over the past 2 years, we have generated close to \$0.5 billion in free cash flow, an outstanding result. For fiscal 2025, we reduced our debt by over \$100 million while continuing to return cash to shareholders through our expanded share repurchase program. For the fiscal fourth quarter, we acquired approximately 161,000 shares of our stock for \$21.5 million.

At the end of the fiscal year, we had approximately \$85 million remaining on the current repurchase authorization. Similar to last quarter, we ended the fiscal year in a net cash position. We had \$40 million outstanding under our revolving credit facility with \$460 million available to borrow. For fiscal 2025, we

delivered a return on invested capital of 14.6%, which was 570 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 in ROIC over the prior year and represents the highest ROIC in 4 years. Cash cycle at the end of the fiscal year was 63 days, favorable to expectations and 6 days lower than the fiscal third quarter and 1 day lower than last year. This level of cash cycle was the best result delivered in the past 5 years. Please turn to Slide 14 for details on this exceptional performance. Along with the seventh consecutive quarterly reduction in gross inventory dollars, we experienced a 10-day sequential improvement in inventory days. Increased revenue and continued progress on working capital initiatives contributed to the sizable reduction in inventory days. Our teams delivered a year-over-year reduction in gross inventory of \$82 million and a reduction of over \$330 million when compared to the fiscal 2023 year-end balance.

For days in advance payments, we experienced a 4-day reduction with a net of \$17 million being returned to customers during the quarter. As Todd has already provided the revenue and EPS guidance for the fiscal first quarter, I'll review some additional details, which are summarized on Slide 15. Fiscal first quarter gross margin is expected to be in the range of 9.8% to 10.1%. At the midpoint, gross margin would be slightly above last quarter despite additional investments in talent, technology, facilities and advanced capabilities to support future revenue growth and greater operational efficiency. We expect selling and administrative expense in the range of \$51.5 million to \$52.5 million, which is fairly consistent with the prior quarter.

Note that this estimate is inclusive of approximately \$6.6 million of stock-based compensation expense. Fiscal first quarter non-GAAP operating margin is expected to be in the range of 5.6% to 6% exclusive of stock-based compensation expense. Looking towards the fiscal second quarter, we expect to maintain margins at a similar level with an opportunity to meet or exceed our 6% margin target as the year progresses. Nonoperating expense is anticipated to be approximately \$4.6 million, which is sequentially higher primarily due to an increase in interest expense. Prior quarters had benefited from the capitalization of interest expense associated with site additions. Consistent with our expectations, we are anticipating an increase to our effective tax rate with the impact of global minimum tax, taking effect in certain jurisdictions. As such, we are estimating an effective tax rate between 16% and 18% for both the fiscal first quarter and for fiscal 2026. Diluted shares outstanding are expected to be approximately \$27.3 million.

Our expectation for the balance sheet is that working capital investments will increase compared to the fiscal fourth quarter. Based on our revenue forecast, we expect this level of working capital will result in cash cycle days in the range of 66 to 70 days. We anticipate improvements in our cash cycle as we progress through the year and would expect to end the fiscal year at a similar level to fiscal 2025 despite greater investments in working capital to support revenue growth.

With these higher investments in working capital, we expect the usage of cash for the fiscal first quarter, a trend we have experienced in the last several years. While a usage this quarter, we expect to follow up fiscal 2025 with robust free cash flow of approximately \$100 million for fiscal 2026. We plan to continue to deploy any excess cash to create additional shareholder value. One final comment on fiscal 2026. We expect capital spending to be in the range of \$90 million to \$110 million which would be consistent with our fiscal 2025 spending.

With that, John, let's now open the call for questions.

Question and Answer

Operator

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

David Neil Williams

The Benchmark Company, LLC, Research Division

Congrats on the solid results. I guess maybe, first, this quarter seems fact there was a lot of discussion around the investments that you're making across the business. And it feels like you really pointed to that to support your future growth. It sounds to me like you're getting at least a little more confident in that kind of growth trajectory. And I guess first question, is that fair to say? And then secondly, what gives you that confidence, I guess, if you look out into this year in terms of the growth opportunity?

Todd P. Kelsey

President, CEO & Director

Yes. So David, yes, it does imply that we're getting more confident in the future growth potential. So we think we're on a nice growth trajectory in creating substantial momentum as we go into fiscal 2026. With regards to investments, we do, and we've talked about our new Penang facility coming online, which is having a bit of a near-term impact. But amazingly, in 1 quarter, that site will breakeven, and in 2 quarters, it will be close to corporate profitability.

So that will be a very near-term drag for us. Hence, Pat's projection that Q2 will recover nicely and be better than a typical quarter, which is usually down for us. But Back to the confidence in the growth trajectory, a lot of it comes back to the new program ramp. So we have a number of substantial new program ramps in play. Oliver highlighted a few, substantial share takeaways in the semi cap market this quarter, which are certainly play into this. There's others that are well underway. In addition, I would say, from an end market standpoint on aggregate, I would say we're seeing modest improvement in end markets as we look forward, which is really good to see. Although we still haven't factored in any substantial aerospace rebound, so that could be additional upside for us as we look to fiscal '26.

David Neil Williams

The Benchmark Company, LLC, Research Division

Great. No, great color there. And then maybe the second here. Just kind of curious, I know that -- on the AI side, there hasn't -- there's been a lot of discussion at least in terms of your participation there and those potential opportunities. It sounds like -- forgive me if I'm wrong here, but it sounds like you said Romania picked up the new AI platform there. Just kind of curious if you could give us a little more color around that, and maybe what your opportunities are in the AI space overall?

Oliver K. Mihm

Executive VP & COO

Yes. That -- what I was talking about there was a new product and the product itself has AI technology in it to help with that cell analysis.

Todd P. Kelsey

President, CEO & Director

Yes. And what I'd add, David, is we're seeing a lot of opportunity within power generation and thermal management within AI. We're still, as we've talked about in the past, we believe the compute market is not the right space for us to be in. We believe that's going to commoditize quite heavily. But we're focused on power and thermal. In addition, we participate via the semi cap business and also Oliver pointed out an example within health care, but a number of the technologies that we're engaged with are leveraging AI.

And I would say healthcare is a real leader in leveraging AI. So we have a number of programs in play where the product itself is leveraging AI.

Operator

Next question comes from Jim Ricchiuti with Needham & Company.

James Andrew Ricchiuti

Needham & Company, LLC, Research Division

First question is, I was wondering, are you anticipating any fallout in any of the major market verticals from the government shutdown? Particularly the defense area, or maybe some of the other markets. Any sense of that yet if this continues?

Todd P. Kelsey

President, CEO & Director

Yes. Well, so far, we're not seeing any indications of slowdown as a result of the government shutdown. I mean we're certainly keeping our eyes open on that. I don't know, Oliver, if you have any additional color you want to add on that front?

Oliver K. Mihm

Executive VP & COO

Yes, I'll just corroborate what Todd said. So no indication of any change from our customers. Yes. I mean broadly, just in terms of continued government regulatory changes, we keep watching from a supply chain perspective, partnering with our customers and ensuring that we have good diversification of supply so we can ensure we have components to build their products.

James Andrew Ricchiuti

Needham & Company, LLC, Research Division

Got it. And the second question I had is, I was hoping to drill down into your comments a little bit more about the strength in semi cap and the growth in energy. I'm wondering, has your view of semi cap for fiscal '26 changed at all versus a few months ago? Just given the modest expectations for WFE in 2026. And then on the energy side, you highlighted, I think, power gen, how big a driver is that in terms of what we're hearing in the data center build-out?

Todd P. Kelsey

President, CEO & Director

Yes. I'll start with the semi cap and Oliver can jump into the power generation. But with regards to semi cap, at this point, we're viewing '25 and '26 to be pretty similar. I mean the forecast we're seeing are WFE growth in the low single digits. And I think overall, that kind of collaborates where the sweet spot of our customer forecasts are, but we do expect some pretty significant share gain.

And if you look at fiscal '25, we ended as we had been targeting during the -- our commentary over the course of the past year in the low double digits, so in the low teens within semi cap growth, and we'd expect to do something fairly similar as we look to fiscal 2026 on the back of share gains.

Oliver K. Mihm

Executive VP & COO

And then from an energy perspective, I'll jump in there. A couple of things that we're seeing. One is, more specifically, what we're seeing is customer revenue growth inside infrastructure and power narration as well as electrification. We talked about the fact program wins are helping to accelerate that revenue growth through F '26, and we're also seeing increased opportunity in EMEA and energy.

Operator

Your next question comes from Melissa Fairbanks with Raymond James.

Melissa Ann Dailey Fairbanks

Raymond James & Associates, Inc., Research Division

I had a question probably for Oliver, the Healthcare/Life Sciences business, finally seeing some strength in imaging and some of the monitoring stuff this was an area over the past year or couple of years where there was a lot of inventory overhang, limiting your growth opportunities there. Just kind of wondering how much of the strength in this area is from maybe we finally negated that inventory overhang or if it's new program ramps that are driving that revenue?

Oliver K. Mihm
Executive VP & COO

Melissa, I'll say it's a bit of both. So we are certainly, as we gave directional guidance here for fiscal '26 of robust growth. That does include strength of new program ramps. But in general, I think the inventory overhang has worked itself to the system. So we also noted that some modest market growth is expected, and that was to be indicative of the fact that, that inventory has been.

Melissa Ann Dailey Fairbanks
Raymond James & Associates, Inc., Research Division

Okay. Great. Another one for you, Oliver. So in industrial, it's pretty clear that semi cap is pretty strong. You did also highlight Broadband Communications, which had been a driver over this past fiscal year. I know that business tends to be kind of lumpy driven around geographic upgrade cycles. Just wondering what you're seeing going forward in that business?

Oliver K. Mihm
Executive VP & COO

Yes. I think we've previously used the term nonlinear. I think lumpy is a good term as well as we see the industry is still working through and I'd say, testing solutions and figure out what they're -- where they're going to go with that. We did highlight part of our Q4 beat was from some strength in that specific subsector as we got some orders for legacy product from our customers. .

Yes. And just looking at '26, I mean, difficult to call exactly when is that going to become more linear. I generally lump that into the broader -- or the recognition of broader industrial was muted for the [year].

Melissa Ann Dailey Fairbanks
Raymond James & Associates, Inc., Research Division

Okay. Great. Having covered that space for a while. I would say, it's probably never going to be linear.

Operator

[Operator Instructions] Your next question comes from the line of Ruben Roy with Stifel.

Ruben Roy
Stifel, Nicolaus & Company, Incorporated, Research Division

Todd, I wanted to ask maybe a bigger picture question on sort of customer conversations, there was a lot of kind of volatility earlier this year with tariffs and otherwise inventories moving around some customers maybe not ramping as quickly as we thought they might. And I'm wondering as you kind of get towards the end of the year here -- calendar year, how the customer conversations are going in terms of -- I know tariffs is -- maybe not discussed as much, but how are you feeling about sort of visibility that you're getting from your customers as you think about, I guess, calendar '26, fiscal '26, however you want to sort of talk about that topic.

Todd P. Kelsey
President, CEO & Director

Yes. Well, I think in general, visibility seems okay right now. Markets have kind of stabilized and are trending up a bit. The programs that we have underway that are ramping are generally progressing well. So we feel good about that. And a lot of focus on making sure that they continue in that direction. When we think about I mean you mentioned tariffs and tariffs -- the situation is fairly similar internally than what -- as to what we've talked about, not really any movement of existing products, just given

the uncertainty of the end state as well as the cost that's associated with moving and moving the supply chain, but a lot of thought about where to source next-generation programs and NEXT programs and a lot of efforts from our trade compliance team just around mitigating challenges that come up on a regular basis, USMCA being one, but there's certainly others around various components and what have you that need to be worked through.

Ruben Roy

Stifel, Nicolaus & Company, Incorporated, Research Division

That's helpful. And then I got a follow-up on the energy discussion because there's been a lot of discussion even last week at a trade event conference on sort of kind of going forward, power generation into data centers and around data centers, et cetera. Is that something that you would characterize as I think you just kind of mentioned how you're going and sourcing new programs, et cetera. Is that something that you put more focus or emphasis into, Todd, just given how much activity there is around power and data center and obviously AI?

Todd P. Kelsey

President, CEO & Director

Yes, we're definitely putting more focus around there, Ruben. And I mean we talked about an award we got from a pretty substantial player within that space. We've got some other customers in that space as well. So we're positioned well, we believe, to capitalize on that demand.

Ruben Roy

Stifel, Nicolaus & Company, Incorporated, Research Division

Perfect. And then last question for Pat. Pat, you mentioned that as the year progresses fiscal '26, you potentially have the ability to meet or exceed the operating margin target. And I'm wondering if you could maybe just walk through some puts and takes. Is that based on getting towards that 9% to 12% revenue goal? Or are there other factors that might impact the operating margin?

Patrick John Jermain

Executive VP & CFO

Yes, sure. Definitely, revenue growth will benefit us from a fixed cost leverage perspective. Although I would point out, we do expect higher incentive compensation this year, given that a key component of that program is based on revenue growth. So we do have to overcome that headwind, which we expect to do.

But Todd had mentioned how quickly we're ramping the Malaysia facility. The other one I'm really pleased about is Thailand. Oliver had mentioned new programs going into Thailand. And year-over-year, we expect a nice margin improvement within that facility that will benefit us overall. And then I talked about some of the productivity and automation efforts that we're investing in.

We've seen that take hold in fiscal '25 with a 40 basis point improvement in operating margin from '24 to '25. We expect that to continue in '26. So yes, as Todd pointed out, we're looking at pretty similar margins for Q2 and then that ability to improve as the year goes on with automation, continuous improvement efforts.

Operator

Your next question comes from Anja Soderstrom with Sidoti.

Anja Marie Theresa Soderstrom

Sidoti & Company, LLC

Covered a lot of ground here already. But I'm curious with the quick ramp of Malaysia, are you going to reach full capacity pretty quickly then? And how should we think about further expansions in CapEx?

Todd P. Kelsey

President, CEO & Director

No, we won't reach full capacity. In fact, there's enormous amount of expansion capacity within that facility, but it's just the efficiency with which our sites run it in Malaysia. So they'll be at a fraction of their full capacity but still be at corporate margins is because of the way that the facilities are run there.

Shawn Matthew Harrison

Vice President of Investor Relations

It's Shawn. One of the things we're doing with our automation and efficiency efforts is really looking to create more revenue capacity within our existing sites. And so whether it's warehouse automation, whether it's machines within our facilities, utilizing them more efficiently, driving down CapEx long term by being more efficient within the sites we have to drive more revenue out of each as well as more profitability.

Todd P. Kelsey

President, CEO & Director

And just to add just a hear more to that as well, too. I think given our current footprint and the efforts that are underway, we feel pretty comfortable that we're set for a bit, barring any major changes in the geopolitical landscape that would make 1 location significantly more desirable than it is today. But right now, we have good capacity in each of our locations. .

Anja Marie Theresa Soderstrom

Sidoti & Company, LLC

Okay. And also you mentioned that the target for this year in revenue doesn't does not account for a return of the commercial aerospace. What are you seeing there?

Todd P. Kelsey

President, CEO & Director

Yes. Oliver, do you want to jump in on one, why don't you take it?

Oliver K. Mihm

Executive VP & COO

Yes. So we are -- as we noted earlier, we're expecting some commercial aerospace tailwind here. As we look at the broader fiscal year or F '26, I should say, but that's not contemplating any Boeing or Airbus demand change, so to speak. So the recent news just last week, regulatory bodies allowing them to increase their demand, increase their production rates, I should say, that has not trickled through to a demand signal change for us yet. .

Anja Marie Theresa Soderstrom

Sidoti & Company, LLC

Okay. And you don't have any sort of indication on when you expect that to happen? Or is it like you're not expecting it to happen this year?

Todd P. Kelsey

President, CEO & Director

It could happen this year. I mean it needs to happen at some point as Boeing and Airbus run through the inventory that they have at their facilities and through the gliders other situation. So it just remains to be seen. It just isn't visibility to us as to when that's going to happen.

Shawn Matthew Harrison

Vice President of Investor Relations

Anja, I mean, the announcement was made last Friday, if we see a change in a demand signal, we can pick that up typically within 90 days. And so if it flows through to the customers we support, that would begin to potentially help us out in sometime in calendar 2026. .

Operator

Your next question comes from Steven Fox with Fox Advisors.

Steven Bryant Fox
Fox Advisors LLC

A couple of clarifications, if I could. First, on the comment that you could accelerate towards like 9% to 12% revenue growth. Is that an indication that maybe exiting the year, second half of the year, you can get there? And like what are the biggest sort of wildcards to sort of getting to that pace of growth over time?

Todd P. Kelsey
President, CEO & Director

Yes, I don't think it's necessarily -- we're not thinking of a hockey stick kind of revenue ramp to the year. It's more of a, call it, a linear ramp is the way that we're looking at it right now. I think the things to getting in the 9% to 12% is continued steadiness to modest improvement in end market and then just continued focus on new program ramps that are underway.

Steven Bryant Fox
Fox Advisors LLC

Okay. That's helpful. And then secondly, just another clarification. In terms of the investments, because you mentioned it several times, are we -- should we consider the level of investments to be mainly focused around Penang? Or if it's not just Penang, can you sort of call out what the next sort of biggest items are? And how this sort of the investments relate to like the fiscal year just completed? I'm trying to understand like if there's an unusual drag on margins for the investment level.

Oliver K. Mihm
Executive VP & COO

Yes. This is Oliver. I'll start by saying Pat noted that our CapEx guide for the year is \$90 million to \$110 million. So that encompasses all of that, and that's fairly consistent to prior year. And so what we're looking at is less about bricks-and-mortar and more about specific investments to help either improve operational efficiency or enable further rent growth.

So some examples would be One, we're investing in IT infrastructure to support CMC compliance, which enable further defense opportunity. We continue to invest in a number of different tools and technology. We previously talked about automating our warehouse and based on our initial pilot that we did in fiscal '24, we saw a 300% increase in PIK rate, a 60% reduction in space and similar reduction in labor. And so we rolled that out with 2 additional sites in fiscal '25. We're looking at doing another 4-ish sites in fiscal '26. And by the end of '26, we'll probably have captured about half of our opportunity across our sites there, based on where that would be applicable. Other tools that we have, Shawn mentioned earlier, there's tools that we're using to essentially optimize machine performance. So if you think about a surface mount technology line, we've decommissioned and turned off a number of lines.

So that creates improved operating cost for us and then with less CapEx. As we continue to grow and utilize those in the future, we're deploying automated material robots across the organization. That has quite a fast ROI, and we're looking at having that deployed at all of our sites by spring of 2026. So that's the kind of stuff that we're investing in tools, advanced capabilities to drive operational efficiency.

Todd P. Kelsey
President, CEO & Director

And the one thing I'd add to, Steve, is that it's not a long-term drag that we're anticipating on margins. We have a near-term drag, mostly driven by Bridgeview, the new site that we have in Penang, Malaysia, but that will quickly be overcome. And in the meantime, in the background, we continue to invest in these other technologies, but we believe we'll will overcome them very quickly and then they'll start to provide additional productivity improvements as we move forward.

Operator

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

Robert Stephen Barger

KeyBanc Capital Markets Inc., Research Division

Just a longer-term question. You drove about 40 basis points of annual margin expansion over the past 3 years to the 9.5% in FY '25. And that's on revenue that really didn't grow much since 2022 or FY '22. Looking forward, I know this is an investment year, but after this, do you expect you can get back on to a margin expansion plan similar to that? Or how are you kind of thinking about long-term ability to drive operating margin expansion, given the current investments you're making and the mix you see going forward?

Patrick John Jermain

Executive VP & CFO

Yes. Steve, this is Pat. As you know, a few years ago, we have reevaluated our operating margin target and set it at 6% or above. And you're right, the last several quarters, we've been able to hit that 6%. What I'd like to see is kind of getting through fiscal '26 and our performance and our ability to hit that 6%. But I could see us sitting here a year from now reevaluating that margin target. And what gives me some confidence in that is something I said earlier about this year, we do have to overcome the incentive compensation headwind.

Once we do that, I think we have that ability to see better fixed cost leverage with revenue growth. And as Oliver pointed out, a lot of the automation efforts that we're investing in now I think will drive productivity improvements for us in the future. Again, one of the last things Shawn mentioned was just improving capacity within our existing sites to cut down on footprint expansions as quickly as we would normally have had to put up new sites. So I think all of that combined could have us sitting here next year, looking at what's our next target to go after.

Robert Stephen Barger

KeyBanc Capital Markets Inc., Research Division

Understood. Yes. And I guess kind of a related question. I know engineering and sustaining services are a small part of the mix, but they are good for margin. Are the wins there causing you to think differently about your pricing strategy broadly?

Todd P. Kelsey

President, CEO & Director

I wouldn't say they're causing us to think broadly different about our pricing strategy, but we certainly feel optimistic about our ability to be able to grow those businesses, which we Engineering is already well above corporate target margins and sustaining, we believe, has the potential to get there as it scales. .

Operator

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

James Andrew Ricchiuti

Needham & Company, LLC, Research Division

Just on the program ramp timing issue for Q4, was that mainly in the defense area that you alluded to?

Patrick John Jermain

Executive VP & CFO

Yes. So Q4, timing issue -- yes, minor delays in defense is what -- is the big contributor to the quarter's result. Yes.

James Andrew Ricchiuti

Needham & Company, LLC, Research Division

And that is behind you looking into Q1, Q2? And then maybe just a follow-up on the A&D wins that you talked about. Again, is that mainly coming from Defense? And to what extent did unmanned going to be a bigger driver for you just given all the activity we're hearing in that market?

Oliver K. Mihm
Executive VP & COO

Yes. So that is behind us. We are, as I noted previously guiding Q1 up mid-single for Aerospace and Defense for the sector as a whole. I want to make sure I catch all your components to your question. You talked about unmanned aircraft, yes. So we do see that as being a bigger factor going forward that market -- as we've been watching it has evolved, we saw a good fit. We see a strong opportunity for us to be a value-add player there.

And so that's what warranted the explicit focus in the commentary today around that specific subsector. I also talked about the fact that we had additional follow-on win there. So that just further corroborates our ability to grow that subsector as we go forward here in F '26. Did I catch all the components of your question?

James Andrew Ricchiuti
Needham & Company, LLC, Research Division

You do.

Shawn Matthew Harrison
Vice President of Investor Relations

Just one follow-up. I mean we do expect a really strong growth year in Defense in fiscal 2026. We've picked up new wins, expanded engagements over the past a couple of quarters as well as a couple of years. Todd and Oliver mentioned investments. We're doing some particularly technology and cybersecurity investments to make us an even more relevant player in that market as we see future growth opportunities, expanding our competitive moat.

And then we are investing in looking to gain additional businesses we expect to see over time additional military spending in both the U.S. and Europe. So really strong outlook for Defense, really strongly positioned there to capture new business win market share.

Operator

There are no further questions at this time. I will now turn the call back to Todd Kelsey for closing remarks.

Todd P. Kelsey
President, CEO & Director

All right. Thank you, John. I'd like to thank shareholders, investors, analysts and all of our Plexus team members who joined the call this morning. In summary, I'd like to reiterate that we're pleased with our strong finish to fiscal 2025, with 3 quarters of sequential revenue growth, strong wins across all of our services, a 40 basis point expansion to our non-GAAP operating margin, 30% non-GAAP EPS growth and greater than \$150 million of free cash flow generation.

We believe we're well positioned to carry this momentum into fiscal 2026 anticipate accelerating revenue growth and strong financial performance. Thank you again, and have a nice day.

Operator

This concludes today's call. Thank you for attending. You may now disconnect.

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