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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*

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

Presentation

Operator

Hello, everyone. Thank you for joining us, and welcome to the Q1 2026 Plexus Earnings Conference Call. After today's prepared remarks, we will host a question-and-answer session. [Operator Instructions]

I will now hand the call 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, future business outlook.

Forward-looking statements are not guarantees since there are inherent difficulties 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 27, 2025, 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 site 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; and 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, Shawn. Good morning, everyone. Please advance to Slide 3. Plexus has achieved significant momentum. Our consistent strategy and focus on delivering customer success continues to enable share gains and is facilitating our leadership in growth markets. We've seen strong year-over-year revenue growth to begin our fiscal 2026 as we ramp programs across all of our market sectors. In addition, we are now seeing pockets of stronger end market demand.

Our ongoing market share gains are amplifying this revenue growth tailwind. As a result, Plexus now has the potential to meet or exceed the high end of our 9% to 12% revenue growth goal for fiscal 2026. In addition, we see significant opportunities to sustain our revenue growth momentum. Our funnel of qualified manufacturing opportunities remains diverse and robust while our Engineering Solutions funnel of qualified opportunities is the third largest in Plexus' history.

We continue to forecast strong operating performance for our fiscal 2026. We anticipate robust growth in operating profit and remain focused on achieving our goal of a 6% non-GAAP operating margin while continuing to invest in talent, technology, facilities and advanced capabilities to support sustained future revenue growth and greater operational efficiency. Finally, although we are investing in support of substantially stronger than previously anticipated revenue growth, we continue to forecast approximately \$100 million of free cash flow for the fiscal year highlighting our ongoing efforts to drive working capital efficiency. We will continue to deploy all excess cash to create additional shareholder value.

Please advance to Slide 4. Revenue of \$1.07 billion met the midpoint of our guidance range as we delivered our fourth consecutive quarter of sequential growth, representing a robust 10% increase year-over-year. A significant expansion in our Healthcare/Life Sciences and Aerospace and Defense market

sectors associated with multiple program ramps and stronger-than-anticipated demand from semi-cap and energy drove our performance. Non-GAAP EPS of \$1.78 met the high end of our guidance range, reflecting very strong operating performance in light of significant near-term investments we are making in support of additional capacity, program ramps and technology.

Please advance to Slide 5. For the fiscal first quarter, we secured 22 new manufacturing programs worth \$283 million in annualized revenue when fully ramped into production. Included in these wins was a record quarterly performance from our Aerospace and Defense market sector estimated at \$220 million in annualized revenue. Our fantastic Aerospace and Defense wins performance underscores strong interest in Plexus' industry-leading solutions as evidenced by expanded relationships with numerous existing customers, significant expansion in our leadership in commercial space and the addition of new and exciting partners deploying disruptive technologies.

Finally, I would note we continue to see significant opportunities to drive market share gain and sustained revenue growth from our Aerospace and Defense market sector. Our funnel of qualified Aerospace and Defense manufacturing opportunities is up significantly year-over-year, while our total funnel of Aerospace and Defense engineering solutions opportunities sits at an all-time high.

Please advance to Slide 6. At Plexus, we continue to demonstrate our commitment to innovating responsibly as 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. Therefore, I'm pleased to share that our team in Penang, Malaysia was once again recognized as one of HR Asia's Best Companies to Work For. This represents the fourth consecutive year receiving this recognition. Along with this honor, the team also accepted HR Asia's Sustainable Workplace Award for the second straight year and the Tech Empowerment Award for the first time.

At Plexus, people are the heart of who we are and what we do, and I'm incredibly proud of what these awards represent for our team members and our vision of building a better world. Our commitment to delivering excellence includes reducing our environmental impact throughout our operations. At the end of our fiscal 2025, we partnered with TNB, a utility provider in Malaysia and joined its green electricity tariff program. This partnership provides 100% renewably sourced electricity to our largest global campus in Penang, Malaysia. Through our fiscal first quarter of 2026, we have dramatically reduced our emissions, leveraging this partnership and the continued focus on emission reductions across all of our global locations.

Finally, last quarter, we communicated the results of our Volunteer Time Off charitable giving program. Through this program, during the fiscal first quarter, we made financial donations to 24 global charities voted on by our team members. We extend appreciation to our incredible team members, partners and local communities whose contributions have been vital to our ongoing success.

Please advance to Slide 7. For our fiscal second quarter, we are guiding revenue of \$1.11 billion to \$1.15 billion, representing 6% sequential and 15% year-over-year revenue growth at the midpoint. We are also guiding non-GAAP operating margin of 5.6% to 6.0% and non-GAAP EPS of \$1.80 to \$1.95. We are experiencing robust demand globally for our industry-leading solutions in support of numerous program ramps, inclusive of ongoing market share gains. In addition, we have seen recent strengthening in Healthcare related to surgical and monitoring technologies within semi-cap, in industrial equipment and across multiple subsectors of our Aerospace and Defense market sector.

We also anticipate delivering strong operating performance for the fiscal second quarter. We expect to leverage this robust revenue forecast and the benefits from our ongoing operational efficiency initiatives to offset sizable headwinds from typical seasonal cost increases, increased variable compensation expense and growth and efficiency investments.

Finally, for fiscal 2026, we now see the potential to meet or exceed the high end of our 9% to 12% revenue growth goal. This reflects the positive momentum anticipated for our fiscal second quarter and signs of stronger end market demand. We expect to leverage this improved revenue outlook and our ongoing investments in operational efficiency to drive significant operating profit expansion and robust free cash flow for fiscal 2026.

In closing, Plexus is generating significant positive momentum. This is a result of our consistent strategy, which is enabling share gains and leadership in growth markets and from our ongoing investments to further our industry-leading solutions and drive greater long-term operational efficiency.

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 first quarter performance of each of our market sectors, our expectations for each sector for the fiscal second 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 increased 3% sequentially in the fiscal first quarter, slightly below our expectation of a mid-single-digit increase on customer end-of-year inventory management. For the fiscal second quarter, we expect revenue for the Aerospace and Defense sector to be up mid-single digits from demand improvement in our commercial aerospace and defense subsectors as well as new program ramps within our commercial aerospace, defense and space subsectors.

Our fiscal first quarter wins for the Aerospace and Defense sector were \$220 million. This extraordinary quarterly performance nearly matches prior record annual wins performance in F '19 and F '21 of \$222 million and \$258 million, respectively. Broadly, our customers reference our operational excellence and depth of technical expertise as contributing factors for increasing interest in partnering with Plexus and our continued program awards.

For the quarter, our Neenah, Wisconsin site won a substantial program that further expands our leadership in the space subsector. In our security subsector, our Guadalajara and Chicago sites will respectively assemble and service an innovative security detection technology product. This new customer cited our consultative engagement and ability to minimize total product cost with a combined production and services solution as contributing factors for this win.

And our Boise, Idaho team is welcoming a new customer with disruptive technology in the unmanned subsector. We anticipate fiscal 2026 revenue growth for the Aerospace and Defense sector to now exceed our 9% to 12% goal. Our continued robust growth outlook is supported by new program ramps with multiple customers and subsectors, strong defense subsector growth and modest growth in our commercial aerospace subsector.

Please advance to Slide 9. This first -- fiscal first quarter revenue in our Healthcare/Life Sciences market sector increased 10% sequentially, aligned to our expectation of a high single to low double-digit increase. For the fiscal second quarter, we expect the Healthcare/Life Sciences market sector to be flat to up low single digits sequentially, reflecting modest growth in our therapeutics subsector. Fiscal first quarter Healthcare/Life Sciences sector wins of \$40 million and included an award for a next-generation imaging product for our Haining, China location. Our historical operational excellence, agile new product introduction performance and partnership through their quoting process contributed to the win.

Our team in Oradea, Romania was awarded mechanical cabinet subassemblies for an imaging product for an existing top medical OEM customer. This share gain award strategically expands our support for this customer to include another region. We continue to have a robust fiscal 2026 outlook for the Healthcare/Life Sciences sector, anticipating revenue growth to now exceed our 9% to 12% goal, supported by contributions from ongoing and new program ramps and improved end market demand across our therapeutics and monitoring subsectors.

Advancing to the Industrial sector on Slide 10. Fiscal first quarter revenue declined 8% sequentially, in line with our forecast. Our Industrial sector fiscal second quarter outlook of a high single to low double-digit increase is driven by demand strength and program ramps within our semi-cap subsector and program ramps and near-term demand improvements within our industrial equipment subsector. Industrial

market sector wins for the fiscal second quarter of \$23 million included an award from an existing semi-cap customer for our Neenah, Wisconsin facility. This award covers product launch volumes for a next-generation product.

Our team in Oradea, Romania was awarded the assembly of a robotic solution that supports material handling and indoor logistics. This transition from our customers' internal manufacturing operations was awarded in part due to the strength of our advanced engineering and manufacturing capabilities. Our improved fiscal 2026 Industrial sector revenue growth outlook is supported by new program ramps and robust growth that's well into the double digits for our semi-cap subsector and program ramps in our industrial equipment subsector, offsetting demand softness within other subsectors. As a result, we now anticipate fiscal 2026 revenue growth for the Industrial sector to approach our 9% to 12% growth goal.

Please advance to Slide 11 for a review of our funnel of qualified manufacturing opportunities. The funnel of qualified opportunities remains robust at \$3.6 billion. Notably, our Aerospace and Defense sector momentum continues to build. Even with the extraordinary wins performance this quarter, our funnel of Aerospace and Defense qualified manufacturing opportunities only saw a modest sequential decrease, reflecting a strong backfill of opportunities. Further, the Aerospace and Defense sector's total funnel for our Engineering Solutions achieved a record high in the fiscal first quarter.

In summary, Plexus has significant momentum as evidenced by our improved revenue growth outlook. Our passion for delivering excellence and creating customer success, supported by our focus on partnership and technical and operational expertise continues to be rewarded through customer recognition, market share gains and new customer partnerships. Ongoing new program ramps, inclusive of share gains and improved end market demand all support Plexus meeting or exceeding the high end of our 9% to 12% revenue growth goal for fiscal 2026.

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 first quarter results are summarized on Slide 12. Gross margin of 9.9% was consistent with our guidance and consistent with the last quarter despite a slight margin impact from the opening of our new Malaysia facility. Selling and administrative expense of \$51.7 million, met guidance and was consistent with last quarter. As a percentage of revenue, SG&A sequentially declined given revenue leverage. Non-GAAP operating margin of 5.8% also met our guidance. 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 \$1.78 was toward the top end of our guidance.

Turning to our cash flow and balance sheet on Slide 13. For the fiscal first quarter, cash from operations consumed approximately \$16 million to support significant program ramps planned this year. We also spent \$35 million on capital expenditures with a large portion of this related to carryover payments for our new Malaysia facility. The result was a cash outflow of approximately \$51 million. For the fiscal first quarter, we acquired approximately 153,000 shares of our stock for \$22.4 million. At the end of the quarter, we had approximately \$63 million remaining on the current repurchase authorization.

Similar to last quarter, we ended the fiscal first quarter in a net cash position. We had \$60 million outstanding under our revolving credit facility with \$440 million available to borrow. For the fiscal first quarter, we delivered a return on invested capital of 13.2%, which was 420 basis points above our weighted average cost of capital and a strong result to be in fiscal 2026. Cash cycle at the end of the fiscal first quarter was 69 days, which was within our guidance range and 6 days higher than last quarter.

Please turn to Slide 14 for additional details. The sequential change in our cash cycle was primarily due to the 6-day increase in inventory days tied to investments to support sizable anticipated revenue growth. As Todd mentioned, Plexus now has the potential to meet or exceed the high end of our 9% to 12% revenue target this year, which is requiring greater investments in working capital. While these investments have increased our cash cycle, I'm pleased to see our net cash cycle remain in the 60s.

As Todd has already provided the revenue and EPS guidance for the fiscal second quarter, I'll review some additional details, which are summarized on Slide 15. Fiscal second quarter gross margin is expected to be in the range of 9.9% to 10.2%. At the midpoint, gross margin would be slightly above last quarter despite seasonal compensation cost increases and the reset of payroll taxes for U.S. employees. We expect to offset these cost impacts through productivity improvements and additional fixed cost leverage from the anticipated robust sequential revenue growth.

We anticipate selling and administrative expense in the range of \$54 million to \$55 million. This includes more than \$1 million of seasonal compensation headwinds and additional variable incentive compensation expense linked to our strong performance. Note that the SG&A estimate is inclusive of approximately \$6.8 million of stock-based compensation expense.

For the second quarter, fiscal second quarter non-GAAP operating margin is expected to be in the range of 5.6% to 6%, exclusive of stock-based compensation expense. As the year progresses, we believe there will be an opportunity to meet or exceed our 6% non-GAAP margin target. Non-operating expense is anticipated to be approximately \$5.3 million, which is sequentially higher primarily due to greater interest expense. Prior quarters have benefited from the capitalization of interest expense associated with site additions. We are estimating an effective tax rate between 16% and 18% for both the fiscal second quarter and for fiscal 2026. Diluted shares outstanding are expected to be approximately 27.2 million.

Our expectation for the balance sheet is that working capital investments will increase compared to the fiscal first quarter. However, based on our robust revenue forecast, we expect this level of working capital will result in a sequential improvement to cash cycle days. As such, we are estimating cash cycle days in the range of 65 to 69 days, which represents a 2-day sequential improvement at the midpoint. With higher investments in working capital, we expect breakeven to a slight usage of cash for the fiscal second quarter. Despite the first half usage of cash to support anticipated revenue growth, we reconfirm our fiscal 2026 expectation for free cash flow of approximately \$100 million.

One final comment on fiscal 2026. In support of our revenue growth, we now expect capital spending to be in the range of \$100 million to \$120 million, which is slightly higher than the previous estimate. With that, Shaley, 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 Benchmark.

David Neil Williams

The Benchmark Company, LLC, Research Division

Congratulations on the really strong performance and outlook here.

Todd P. Kelsey

President, CEO & Director

Thank you, David.

David Neil Williams

The Benchmark Company, LLC, Research Division

Yes. I guess my first question for you, Todd, is what's changed do you think over the last 3 to 6 months? And obviously, the quarter is really strong in your outlook as well. But now you're talking about exceeding or meeting that 9% to 12% target. It feels like things have materially changed. And I'm just wondering if that's more market-driven or more of the program wins that you're seeing. Just any color on what do you think is the major driver of your success here?

Todd P. Kelsey

President, CEO & Director

Yes. David, I would call it a combination of both. We're certainly getting some very strong program wins, and you may have noticed the dollar value this quarter, the wins is substantially higher than typical for us as well, too, which is suggesting some larger programs coming in. Those ramps are going well in the new program ramps that we have underway right now, which is helping, particularly, I think Healthcare is being driven in a big way from program ramps, but somewhat in Industrial with semi-cap. But then we're also seeing end markets improve. We're seeing major changes in the semi-cap market right now.

I would say we're in the early stages of seeing demand improvement right now, though we started to see things come through about a month ago, and we're seeing some bullish news out there even as of today. So it remains to be seen if that continues to improve in the future. But we're also seeing upticks in Healthcare, although a little bit more modest, and in certain subsectors of Aerospace and Defense. But one thing I'd also note though with regards to Aerospace and Defense is we're not seeing the full pull-through from Boeing yet. So while we're seeing some modest improvement, we're not seeing the full pull-through from their increasing volumes.

David Neil Williams

The Benchmark Company, LLC, Research Division

Okay. Great. Really nice commentary there. And I guess maybe secondly, just kind of thinking about that semi-cap equipment, as you mentioned and just seeing the early demand, how long does that typically take to translate into revenue or when you'll see those design win ramps? If we talk about CapEx being added today and having those discussions, is that a year, is it 2 years? How long should we think about for that semi-cap to kind of show up in your revenue?

Todd P. Kelsey

President, CEO & Director

Well, David, demand increases will show up significantly faster. So that's in the quarter to 2-quarter range. It's really just a matter of getting the proper materials pipelined. And in many cases, with many of our customers, we have buffer stock inventory so we can respond fairly rapidly. So that will be quick. I mean if

it becomes capital or footprint or things like that, then we're talking the year-plus time range. But we have ample available capacity right now.

Operator

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

James Andrew Ricchiuti

Needham & Company, LLC, Research Division

So I was hoping to drill into that Aerospace and Defense demand and the wins you're seeing. First, is the demand -- it sounds like it's coming from traditional defense. It looks like you're still anticipating some of the commercial aerospace strength in maybe going forward. I'm also wondering if you're seeing any momentum in some of the more -- the emerging areas, demand area, obviously, there's been a lot of attention on drones or [AVs] I think you highlighted commercial space. So I wonder if you could just elaborate on what you're seeing in that market.

Oliver K. Mihm

Executive VP & COO

Yes. Sure, Jim. This is Oliver. So hitting it from a couple of different angles. I'd say that new program ramps across all of the subsectors within that sector continue to contribute to our outlook here and our foregoing momentum. So that's certainly a big piece of it. In terms of just underlying demand, certainly seeing some underlying demand strength in defense. We talked about some incremental growth in commercial aerospace.

But as Todd just highlighted, specifically within commercial aerospace, seeing Boeing or Airbus increase their production rates is currently not contemplated in our outlook. From a defense perspective, I'd say also that -- candidly, the implied spending from news headlines has not trickled through in any substantial way for us here yet in terms of demand signal from our end customers. So there's also potential upside going forward in that particular subsector.

The other thing I think we're just excited about is, as you highlighted or hinted at, our leadership in the space subsector continues to build and create momentum for us. We've had some substantial wins there recently and again this quarter. And then also, we talked about in our prepared remarks, the disruptive technology and the opportunity for those particular programs to create additional revenue growth here in the out quarters as we ramp those programs.

James Andrew Ricchiuti

Needham & Company, LLC, Research Division

That's helpful. Follow-up question. Maybe, Pat, for you. I'm wondering, you may have given it, but can you quantify the headwinds on gross margins in the quarter from Malaysia, the new Malaysia facility? And does that ease or will it continue in Q2?

Patrick John Jermain

Executive VP & CFO

Yes. It was fairly minimal in Q1. It was a little less than 10 basis points of a headwind overall to margins. We'll see in Q2 very close to breakeven. But then encouraging the back half of this year, we're actually going to be approaching our -- close to our corporate average for margins within that site.

And probably even more encouraging is what the tailwinds we're seeing from our new Thailand facility, which was profitable in fiscal '25, but the improvement in F '26 is looking to benefit margins by about 25 to 30 basis points overall margin. So really positive back half of this year with Thailand. And part of the reason why I think we can get to our 6% or above back half of this year.

Shawn Matthew Harrison

Vice President of Investor Relations

Jim, it's Shawn. Just as a little bit of follow-up. We had a ribbon cutting a few weeks ago with one of our key customers at that new site in Malaysia. Extremely excited about that. And I know we've had other key customers into that site recently and feedback has been fantastic. So to Pat's comments, really expect some strong contributions from our newer facilities in Asia as we move throughout fiscal 2026.

Shaley, we're ready for the next question, please.

Operator

Your next question is from Melissa Fairbanks with Raymond James.

Melissa Ann Dailey Fairbanks

Raymond James & Associates, Inc., Research Division

Congratulations on the great quarter and guide. Excited to see you put that stronger full year guide into print. I appreciate all the commentary about working capital investment to support a lot faster growth. We've heard from a number of your suppliers this week suggesting they're seeing increasing lead times across a wider range of components now. I'm wondering if you're starting to see that already and if this is either impacting customer plans for program ramps and/or your own internal working capital investments, specifically related to shortening or tightening lead times.

Oliver K. Mihm

Executive VP & COO

Yes. Melissa, this is Oliver. We are certainly seeing some of our supply-based commodities ticking up in terms of lead time. So more specifically, our semiconductor commodity space, printed circuit board specifically out of the APAC region also increasing a bit in lead time. But as we hinted at or talked to earlier here in some of the Q&A, really working to get ahead of that.

So with customers, we're prepositioning inventory, we're being thoughtful about what specific aspects of their bill of material would warrant prepositioning to mitigate risk and ensure supply. For instance, within memory, that's something that we've extended out our PO coverage to our suppliers, working with customers to ensure we've got extended forecast visibility and basically just coming up with a creative partnership with our customers to ensure that we're covering the risk there and can ensure continuity of supply.

Todd P. Kelsey

President, CEO & Director

Yes. One of the things I'd add too, Melissa, is if you compare this back to a few years ago when lead times were stretched, I think we're in a significantly better position to not only manage inventory better, but also support our customers better through our redesign sales inventory operations planning process through some of the other systems and tools that we put in place. So we feel like we're in really good shape here as lead times begin to tighten a little bit.

Melissa Ann Dailey Fairbanks

Raymond James & Associates, Inc., Research Division

Okay. Great. Yes. Let's hope we don't get back to the conditions of a few years ago. As a follow-up question -- yes, right. So my next question, I'm excited to see new program ramps ramping next time I visit the Neenah location. But I'm just wondering if -- with all of these new manufacturing wins and program ramps across a multiple number of locations and end markets, how close are we to needing new capacity additions? Or are you able to support all of this growth that we're expected to see this year and maybe into next year with the existing location or the existing footprint rather?

Todd P. Kelsey

President, CEO & Director

Yes. We're in pretty good shape from a footprint standpoint, Melissa. I mean we think we could comfortably support about \$6 billion in revenue with the existing footprint. Of course, it depends a bit on

geography and where the growth is if it ends up concentrated in an area. But we're in -- right now, we're in good shape with a significant available capacity in all our regions.

Oliver K. Mihm
Executive VP & COO

I'll jump in and add there and note that part of our technology and efficiency focus within operations is not just focused on P&L improvements, but also focused on essentially what I just call broadly asset utilization, whether that be machine assets in terms of machines or assets in terms of bricks-and-mortar footprint. So we've historically talked -- previously talked about our AutoStore, so where we're taking our warehouse and putting that into a 3-dimensional cube with robots that are running around picking up bins.

And that yielded specifically a 60% reduction in space, and then we can convert that floor space to revenue. And then also, I'll reflect on a specific software tool that we're utilizing to drive efficiency and how we use our Surface Mount Technology machines. And just in the past few quarters here, we have redeployed multiple SMT lines, 7 lines, which then creates additional footprint space for, say, higher level assembly as well as CapEx avoidance.

Patrick John Jermain
Executive VP & CFO

Yes. And from that standpoint, Melissa, capital spending, I see a shifting over the next few years from more footprint additions to these automation investments. And from a percentage standpoint, we've been running around 2.5% or below percentage of revenue for capital spending. I think we'll be in that range in the next few years. But again, it's more of a shift away from footprint to investments within our sites.

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

Okay. Great. Super, super helpful. I thought you guys were going to mention AI, but you missed your chance.

Todd P. Kelsey
President, CEO & Director

Well, we could talk about it, if you like.

Operator

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

Jacob Moore
KeyBanc Capital Markets Inc., Research Division

This is [indiscernible] on for Steve. The first one from us is on Industrial. It's a little bit of a 2-parter. First, I just wanted to follow up on the semi-cap commentary. We heard from 2 large semi-cap OEMs yesterday that called for pretty strong growth this calendar year. They said their pull-ins are happening quickly and demand is almost overwhelmingly strong.

I wanted to ask, do you agree with one of their outlooks for greater than 20% growth that's second half weighted? Is that what you're seeing in your order book with your mix of semi-cap customers? And then the second part was if you could just walk through the puts and takes of the non-semi-cap industrial markets, that would be helpful for how we think about the consolidated segment.

Oliver K. Mihm
Executive VP & COO

Yes. Steve (sic) [Jacob], this is Oliver. From a semi-cap perspective, certainly, our prepared remarks should reflect how bullish we're feeling here in fiscal '26. And certainly, we're seeing a variety of different growth rates coming through from customers, from industry metrics. I guess a couple of thoughts there.

One is, and Todd hit this earlier, it's still early days, right? So this is something we've seen here just through the last quarter, the uptick in demand from our customers. So in terms of our outlook, we feel confident that we can outgrow the market. Exactly how that's going to play out, I think early days is the right phrase to use to quantify that.

I'd also note that as we're contemplating and giving you metrics about how we're looking at growth, we're working on our fiscal year basis, which ends in September versus a lot of the industry and customer commentaries coming across from a calendar year basis. So that's a little bit off, and we're just talking about essentially for us, 3 quarters inside the calendar year. Across the rest of the sector, candidly, I think there's a lot of other things to be enthusiastic about.

Certainly, within comms, and we noted this earlier, generally a little bit still muted in demand. So we're seeing inflection, but still opportunity for further upside there. Within comms, we see the tech transition unfolding from a comparable basis year-over-year. Recall that throughout F '25, we mentioned in a number of these calls how we had captured some legacy orders as the transition was bumping along, right? And so that's part of our comparable there.

Another subsector we're really excited about is energy, whether that be infrastructure, distribution, control systems, storage, we're excited about our growth with our customers there. We're also excited about our funnel. We've seen a strong rate of increase with technology specifically in support of the data center like power management and storage, thermal cooling, thermal density -- in support of thermal density, and we've got some several good-sized opportunities in the funnel there.

Jacob Moore

KeyBanc Capital Markets Inc., Research Division

Understood. That's very helpful. Then the second one from us. I kind of wanted to drill into your automation and efficiency-focused initiatives, maybe give you an opportunity to expand on the AI initiatives you have going on. I know you highlighted some activities you're doing. But could you just give us any color on the breadth of the initiative across your manufacturing base, the time line and the potential financial benefits? I mean do you think that can benefit sales return? Or are you more focused on the margin benefits from those activities?

Oliver K. Mihm

Executive VP & COO

Yes. I'll highlight a couple of different things we're doing here and take the opportunity to build in some of our AI-driven activities and then maybe others can jump in as well. One thing that we're really excited about is how we're using automated robots to drive material deployment from our warehouses, which are converting to these AutoStore 3D cube, which I talked about earlier.

These robots piloted that in fiscal '25 and just to show that the pace and alignment across the organization as we adopt these technologies by spring of this calendar year here, 2026, we're going to have full site deployment of that technology across all of our sites, essentially eliminating human work, transferring materials from the warehouse to the floor for what I'll just say is generally lighter items, right?

And then just thinking about that, didn't stop there. So one of our sites just in the past few weeks conducted a Kaizen activity, optimized their floor layout to now better support that technology and as a consequence, reduced as far as 75% reduction in the mileage that we're driving across for the material deployment. Each of those deployed bots replaces roughly 1.5 to 2 FTEs. ROI on that, less than 12 months. So we're pretty excited about that kind of deployment, I should say.

Yes. And then from an AI perspective, we're building that in a number of different ways. So we're building AI and machine learning into how we can -- how we handle work orders that are in play, and we're specifically expecting a significant reduction in WIP on the production floor as a result of that. Also now using AI and some camera technology to help us define optimal standard work times, which will then enable us to reduce overall labor -- or sorry, improve labor efficiency in our high mix, high-level assembly aspects of our production floor.

Patrick John Jermain

Executive VP & CFO

Yes. So Jacob, a lot of what Oliver has talked about is definitely going to benefit margins. It will also help with reduced capital spending. One other AI application is around the quoting process and how can we speed up the quoting process. So that will have an impact on revenue as well, bringing in new wins.

Todd P. Kelsey

President, CEO & Director

So one of the things that's worth mentioning, too, is we have a two-pronged attack or approach for how we're attacking our AI and leveraging it throughout the facility. One, we have a dedicated team of data scientists and programmers, which are tackling large enterprise-level issues similar to the ones that Oliver and Pat talked about. But we've also fully deployed AI tools to the desks of all our employees, and that's getting well over 30% daily usage from our staff. So our teams are heavily leveraging AI in the way they go about doing their work.

Operator

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

Anja Marie Theresa Soderstrom

Sidoti & Company, LLC

Congratulations on the nice performance here and outlook. Most of my questions have been addressed, but did you quantify to what magnitude your seasonal bonus pay are going to pressure the margins for the second quarter?

Patrick John Jermain

Executive VP & CFO

Yes. We didn't say it in number terms, but it's about 50, 60 basis points of a headwind that we're overcoming. So again, to maintain operating margin consistent with Q1, we're overcoming a lot of headwinds there. And again, that's a combination of improving profitability with our new Malaysia facility, Thailand, just the sheer revenue growth, better leverage of our fixed costs. And then what we've been talking about, a lot of productivity improvements, driving efficiencies and margin improvement there.

Anja Marie Theresa Soderstrom

Sidoti & Company, LLC

Okay. And then do you expect further improvements in the Malaysia and Thailand facilities in the second half, right? And continue...

Patrick John Jermain

Executive VP & CFO

We do. Yes. And typically, what we see is this hit in the March quarter from the compensation headwinds, and then we start to earn through that with productivity improvements in the back half of the year. And with sequential revenue growth as well, we'll be leveraging our fixed cost even further.

Anja Marie Theresa Soderstrom

Sidoti & Company, LLC

Okay. And then in terms of taxes, it seems like that's going to come down. What are the puts and takes for the tax rate? And why is that expected to come down?

Patrick John Jermain

Executive VP & CFO

I don't think we were guiding that, Anja. We're keeping our range at 16% to 18%. So I think the Street had us at 17%, and that's where we continue to think it will fall. If you go back to last year, it was a very low rate because we had a lot of reversals of some reserves that took place in fiscal '25. So that rate was

8% and now we're guiding up to 17%. And the real increase is around global minimum tax that's taking effect in certain jurisdictions. But yes, I think we're going to maintain that 17%.

Anja Marie Theresa Soderstrom

Sidoti & Company, LLC

Okay. And then you mentioned in Industrial that you won a new robotics program that was transitioning out from internal manufacturing. Is that a new customer? Or -- and do you have more opportunities to win more programs from them?

Oliver K. Mihm

Executive VP & COO

That customer is not new. We're currently doing work for that customer in the Americas region. What's new is we're now going to be -- that particular win I talked about is in our EMEA region. And yes, we absolutely have further opportunity with that customer, including opportunities that are currently in our funnel of qualified manufacturing opportunities.

Operator

Our next question comes from Jim Ricchiuti with Needham & Company.

James Andrew Ricchiuti

Needham & Company, LLC, Research Division

I just had a quick one. I believe in the Q4 call, you alluded to some programs or it may have been one program that I believe was in A&D that slipped a bit. And I was just wondering if there was any catch-up in Q1? Or is the -- has that timing shift moved to later in the year?

Todd P. Kelsey

President, CEO & Director

Yes, that's on track now, Jim.

James Andrew Ricchiuti

Needham & Company, LLC, Research Division

Okay. So it's -- you're anticipating that over the next few quarters. I don't know how significant that was.

Todd P. Kelsey

President, CEO & Director

Yes. It was enough to impact the A&D results, but I wouldn't call it a big needle mover on Plexus' overall revenue. I mean yes, it has a positive impact, but it's not going to flow through in a huge way.

Operator

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

Todd P. Kelsey

President, CEO & Director

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

In closing, we're generating significant momentum, and I anticipate fiscal 2026 to be a great year for Plexus as we celebrate our 40th year as a publicly traded company. Our strong start and outlook is a testament to our consistent strategy and our more than 20,000 team members globally who focus on delivering for our customers each and every day. Thank you again to our team members, our customers and shareholders. Have a nice day.

Operator

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

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