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Market Intelligence

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Earnings Call

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Steven Bryant Fox
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Presentation

Operator

Hello, everyone. Thank you for joining us, and welcome to the Q2 2026 Plexus Earnings Conference Call. I will now hand the conference over to Shawn Harrison, IRO. 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 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 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; and David Abuhl, Senior Vice President, Finance.

With today's earnings call, Todd will provide summary comments before turning the call over to Oliver, Pat and David for further details. Before I turn the call over to Todd, I would first like to express my gratitude to Pat for his partnership, mentorship and friendship and offer my best wishes for an amazing retirement.

Second, I'm excited to announce that Todd will be appearing on CIBC's Fast Money this evening to discuss Plexus and our fantastic results and outlook.

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. Before I begin my prepared remarks regarding the business, I want to celebrate Pat's incredible 12-year tenure as Plexus' CFO and wish him all the best during retirement. He's been an extraordinary business partner to me over the years. I also want to express my deep gratitude for Pat's leadership and integrity, establishing a strong tone from the top. Pat has been instrumental in our growth journey, fostering and cultivating a high-performing finance team that has played a significant role in Plexus' tremendous financial results over the years.

I'm also excited to welcome David Abuhl as our next CFO. Since joining Plexus last fall, David's impact on the organization has already been meaningful. I'm confident that as we continue our growth journey, David's extensive financial expertise, global perspective and strategic mindset will position him to be an exceptional CFO.

Please advance to Slide 4. Plexus' momentum is accelerating broadly. We now expect to deliver mid-teens or greater fiscal 2026 revenue growth from the contribution of numerous program ramps, ongoing market share gains and improving end market demand. Our team generated a record \$355 million in new manufacturing program wins with broad-based contributions across our market sectors. Against this tremendous result, we also expanded our funnel of qualified manufacturing opportunities.

We're delivering non-GAAP operating margin expansion, while increasing our already significant investments focused on expanding operational efficiency and capitalizing on continuing revenue growth momentum. Finally, we are sustaining strong financial discipline, delivering better-than-expected working capital performance amid substantial acceleration in revenue growth and tightening supply chain conditions.

Please advance to Slide 5. Fiscal second quarter revenue of \$1.164 billion exceeded our guidance range, representing our fifth consecutive quarter of sequential revenue growth and a robust 19% year-over-year increase. While growth was strong throughout all of our market sectors, we experienced specific strength in aerospace and defense as a result of increasing demand for our industry-leading solutions and support of disruptive technologies and in semi-cap, where our ongoing share gains are amplifying surging market demand.

Non-GAAP EPS of \$2.05 exceeded guidance. We delivered a robust 6% non-GAAP operating margin, while continuing to heavily invest in program ramps, operational efficiency initiatives and technologies.

Please advance to Slide 6. For the fiscal second quarter, we secured 30 new manufacturing programs with a record \$355 million in annualized revenue when fully ramped into production. All market sectors contributed to this tremendous performance, which included broad-based opportunities in aerospace and defense, expanded relationships and share gains in surgical and imaging platforms and new engagement in data center power solutions and continued share gains in semiconductor capital equipment.

Through expanded business development efforts, synergies with our engineering solutions and sustaining services and our focus on providing unmatched quality and delivery, we are also seeing an increasing breadth of customer interest for our industry-leading solutions. As a result, for the second fiscal quarter, our funnel of qualified manufacturing opportunities expanded sequentially and year-over-year. We produced particularly notable growth in our industrial market sector, where we are generating significant interest in automation and robotics, data center and energy solutions and our aerospace and defense market sector.

Please advance to Slide 7. At Plexus, we are committed to advancing sustainability through our value of 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. Critical to our success is our people who are at the heart of who we are and what we do.

Our second fiscal quarter was particularly memorable as we celebrated 2 major organizational milestones. First, I was honored to join members of our Plexus leadership team at NASDAQ's market site in Times Square to ring the closing bell in celebration of our 40th anniversary as a publicly listed NASDAQ company. This significant accomplishment was a celebration of the trust we've created with our customers and the unwavering dedication of our people.

Additionally, our Kelso, Scotland site celebrated its 25th anniversary. Since opening in 2001, the Kelso team has evolved from printed circuit board assembly to manufacturing complex life-impacting products, an evolution made possible by our team members, many of whom have been with us since day 1.

Our commitment to delivering excellence and innovating responsibly also continues to earn external recognition. We are proud to be named a finalist for the 2026 Manufacturing Leadership Awards in 2 categories: AI vision and strategy and sustainability in the circular economy. The awards will be presented in June by the Manufacturing Leadership Council, which is part of the National Association of Manufacturers. These awards highlight our emphasis on innovation and delivering a positive environmental impact as we help create the products that build a better world.

Finally, we are excited to announce the upcoming release of our annual sustainability report during our fiscal third quarter. The fiscal 2025 report highlights our continued commitment to innovating responsibly as we've always been driven to do something more for our customers, our team members and the world.

Please advance to Slide 8. For our fiscal third quarter, we are guiding revenue of \$1.2 billion to \$1.25 billion, representing 5% sequential and 20% year-over-year growth at the midpoint. We are guiding non-GAAP operating margin of 5.9% to 6.3% and non-GAAP EPS of \$2.02 to \$2.18. We believe we are

outgrowing our end markets, many of which are seeing improving demand by leveraging new program ramps, market share gains and our support of disruptive technologies. As a result, we anticipate double-digit revenue growth in each of our market sectors in fiscal 2026 with particularly strong performance in aerospace and defense and industrial, led by significant growth in our semicap subsector.

Accordingly, for fiscal 2026, we now expect to deliver mid-teens or greater revenue growth overall, a substantially increased forecast from our initial expectations last October. We anticipate delivering this revenue growth performance with robust profitability, anticipating a 6% or greater non-GAAP operating margin for fiscal 2026 and continued strong working capital efficiency.

In closing, our consistent focus on redefining excellence through our unmatched quality and delivery is shaping our decision-making and sustaining our tremendous momentum. We are expanding and accelerating investments in technology, capabilities and our people to enable customer success, drive greater long-term operational efficiency and increase our revenue growth potential. These efforts will position us to sustain our momentum well beyond fiscal 2026.

I'll 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 second quarter performance of each of our market sectors, our expectations for each sector for the fiscal third 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 9. Revenue increased 19% sequentially in the fiscal second quarter, significantly outperforming our expectation of a mid-single-digit increase. Improved end market demand across all subsectors and our team's efforts to expand component availability drove the result.

For the fiscal third quarter, we expect revenue for the aerospace and defense sector to be up mid-single digits as we see programs scaling up in our space and defense subsectors. Our fiscal second quarter wins for the aerospace and defense sector were \$44 million. Our Kelso, Scotland site won a follow-on share gain award from an existing customer in the defense subsector. The customer noted the strength of our partnership and the operational excellence as factors in their decision.

Relationship strength and operational excellence were also factors in a significant follow-on award from an existing unmanned defense customer. This product is built in our Boise, Idaho facility. We anticipate fiscal 2026 revenue growth for the aerospace and defense sector to exceed our 9% to 12% goal with growth expected to be well into the double digits. The sector's growth continues to gain momentum, supported by new and existing customers with strong demand growth in the commercial aerospace and space subsectors and exceptional growth in the defense subsector.

Please advance to Slide 10. Fiscal second quarter revenue in our Healthcare/Life Sciences market sector was up 1% sequentially, aligned to our expectation of flat to up low single-digit performance. For the fiscal third quarter, we expect the Healthcare/Life Sciences market sector to be flat ahead of an anticipated return to sequential revenue growth in our fiscal fourth quarter.

Our fiscal second quarter wins were strong at \$116 million. Our team in Xiamen, China won a next-generation point-of-care ultrasound system due to the strength of our new product launch capabilities. Our seamless engineering to production transition capabilities also contributed to a significant award for our Neenah, Wisconsin facility. The products support a robotic surgical platform.

We continue to have a robust fiscal 2026 outlook for the Healthcare/Life Sciences sector, anticipating revenue growth to exceed our 9% to 12% goal, supported by contributions from ongoing and new program ramps, share gains and strong end market demand across our therapeutics and monitoring subsectors.

Advancing to the industrial sector on Slide 11, fiscal second quarter revenue was up 12% sequentially, in line with our forecast. Our industrial sector fiscal third quarter outlook of a low double-digit increase is supported by substantial growth within the semicap subsector and strength in the industrial equipment subsector from new program ramps and strengthening demand.

The industrial market sector had record high wins of \$195 million for the fiscal second quarter. Wins included a substantial award from an existing customer that is launching a new product line for data center power solutions. Our long-term strategic partnership and strength of value proposition contributed to the win. The product will be built in our Bangkok, Thailand facility.

We also won a substantial follow-on award from an existing robotics customer. A strength of execution and ability to quickly ramp to fulfill their demand supported the win. This product is assembled in our Guadalajara, Mexico campus. Our Guadalajara, Mexico campus is also welcoming a new customer to Plexus as we are selected to support production of an energy storage system for electric commercial vehicles.

Our outlook for the industrial sector for fiscal 2026 continues to gain momentum. We are now anticipating growth well in excess of our 9% to 12% growth goal. Our growth outlook is supported by new program ramps and robust growth that's in excess of market for our semicap subsector and demand improvement and program ramps offsetting pockets of demand softness within other subsectors.

Please advance to Slide 12 for a review of our funnel of qualified manufacturing opportunities. In recognition of Plexus' industry-leading capabilities and focus on building partnerships, our customers are providing increasing opportunities to capture share and new program wins. As evidence, our funnel of qualified manufacturing opportunities expanded 11% sequentially in the fiscal second quarter and is now \$4 billion. This expansion is due in part to record high funnels in our aerospace and defense sector and our industrial sector. The funnel in those 2 sectors has expanded in excess of 45% as compared to the fiscal second quarter of 2025.

In summary, the revenue growth we are experiencing from ongoing and new program ramps, inclusive of share gains and improving end market demand support our revised outlook for Plexus to now deliver mid-teens or greater fiscal 2026 revenue growth.

Before I turn the call over to Pat, I'd also like to wish Pat well in his retirement. You've been an incredible partner and done a lot in support of the success of Plexus and the incredible journey that we are on. Congratulations.

Now over to you. Pat?

Patrick John Jermain
Executive VP & CFO

Thank you, Oliver, and good morning, everyone. Our fiscal second quarter results are summarized on Slide 13. Gross margin at 10.2% was at the top end of our guidance due to a favorable mix of service offerings and fixed cost leverage. In addition, productivity improvements associated with ongoing operational efficiency initiatives helped to offset the impact from our typical seasonal compensation cost increases.

Selling and administrative expense of \$57.3 million was slightly above our guidance due to additional incentive compensation expense driven by our robust revenue growth and strong ROIC performance. In addition, we expanded our technology and automation investments in support of future efficiencies and sustaining revenue growth momentum. The result was a non-GAAP operating margin of 6%, which was at the top end of our guidance.

Non-operating expense of \$4 million was favorable to expectations due to foreign exchange gains and lower-than-anticipated interest expense. Non-GAAP diluted EPS of \$2.05 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 14. For the fiscal second quarter, we delivered \$28.5 million in cash from operations and spent \$12.5 million on capital expenditures, generating \$16 million of

free cash flow, which exceeded our forecast of breakeven to a slight usage of cash. For the fiscal second quarter, we acquired approximately 109,000 shares of our stock for \$20.6 million. At the end of the quarter, we had approximately \$42 million remaining on the current repurchase authorization.

Similar to last quarter, we ended the fiscal second quarter in a net cash position. We had \$137 million outstanding under our revolving credit facility with over \$350 million available to borrow. For the fiscal second quarter, we delivered a return on invested capital of 13.8%, which was 480 basis points above our weighted average cost of capital. Despite an increase in invested capital to support robust revenue growth, we continue to generate healthy ROIC given strong operational performance. Cash cycle at the end of the fiscal second quarter was 64 days, which was favorable to expectations and 5 days lower than last quarter.

Please turn to Slide 15 for additional details regarding this positive result. Sequentially, days in receivables improved 3 days due to exceptional collection efforts by our team. Days in inventory sequentially improved 4 days from continued progress on working capital initiatives and increased revenue. Accounts payable days increased 3 days due to the timing of supplier payments and procuring inventory in anticipation of a significant revenue growth. Last, our days in advanced payments experienced a 6-day reduction with a net \$15 million being returned to customers during the quarter.

Before I hand the call to David, I'd like to make a few closing comments. It has been an absolute pleasure and honor to serve as CFO for Plexus under Todd's leadership and guided by our outstanding Board of Directors. I want to thank Todd, our Board and everyone at Plexus for your support and trust over the last 12 years. I especially want to thank our finance organization for maintaining the highest standards and integrity, something I'm confident will endure. The company is in great hands with David moving into the CFO role, and I know the transition will be seamless over the coming months. It has been a true privilege to be part of this fantastic organization.

I will now turn the call over to David to discuss additional details regarding our fiscal third quarter expectations as well as some commentary regarding fiscal 2026. David?

David Abuhl

Thank you, Pat, and good morning, everyone. Let me begin by offering my congratulations to Pat and wishing him all the best in this next chapter. I'm excited to step in and lead a tremendous team and carry on the legacy of a really strong finance organization. I'm also optimistic about Plexus's growth journey and confident that our consistent strategy will sustain our momentum as we help create the products that build a better world.

Now let me turn to our guidance for the fiscal third quarter, summarized on Slide 16. As Todd has already provided the revenue and EPS guidance, I will review some additional details. Fiscal third quarter gross margin is expected to be in the range of 9.9% to 10.2%. At the midpoint, gross margin would be slightly below last quarter, impacted by the timing of program ramps, capability investments and ongoing higher incentive compensation given our robust revenue growth and strong financial returns. We anticipate ongoing productivity improvements and additional fixed cost leverage will serve as offsets.

Our outlook for selling and administrative expense for the fiscal third quarter is in the range of \$69 million to \$70 million, including our typical stock-based compensation expense and additional stock-based compensation expense as a result of executive retirement. Excluding these expenses, we expect to gain leverage sequentially on higher revenue.

Fiscal third quarter non-GAAP operating margin is expected to be in the range of 5.9% to 6.3%, exclusive of stock-based compensation expense. At the midpoint, this would demonstrate sequential improvement and good progress toward our goal of consistently delivering at or above a 6% non-GAAP operating margin. Non-operating expense is anticipated to be approximately \$5.4 million in the fiscal third quarter, up sequentially primarily due to higher interest expense and foreign exchange comparisons. We are estimating a non-GAAP effective tax rate of between 16% and 18% for the fiscal third quarter and the same range for fiscal 2026, unchanged from our previous outlook for the year.

Now turning to the balance sheet. For the fiscal third quarter, we are expecting higher investments in working capital to support the accelerating revenue growth outlook. We anticipate cash cycle days will be

in the range of 67 to 71 days. As a result, we expect a usage of cash of free cash flow for the fiscal third quarter. In support of our accelerating revenue momentum, we are strategically increasing our working capital investments in fiscal 2026. Yet through our focus on working capital efficiency, we continue to expect to end the fiscal year with cash cycle days in the low 60s.

We also continue to expect fiscal 2026 capital expenditures in the range of \$100 million to \$120 million. Our focus on operational efficiency is creating tangible benefits by generating higher throughput on existing production lines, which is deferring new equipment purchases while also increasing site revenue capacity.

We are now forecasting fiscal 2026 free cash flow of \$50 million to \$75 million. Over the longer term, we remain confident that by leveraging our focus on working capital efficiency and our significant investments in operational efficiency, we will capitalize upon our substantial revenue growth opportunities and generate robust free cash flow.

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

Question and Answer

Operator

[Operator Instructions]. Your first question comes from the line of Melissa Fairbanks with Raymond James.

Melissa Ann Dailey Fairbanks

Raymond James & Associates, Inc., Research Division

Congratulations on the quarter. Of course, congratulations to Pat. We're going to miss you, but Dave, I look forward to working with you more in the future. I would be remiss if I didn't ask Pat about cash cycle days one more time. I know I'm a little bit focused on it. Dave, thanks for additional color looking into cash cycle days exiting the year. We're obviously seeing a really strong acceleration in growth in the near term. I know they're going to trend higher next quarter. It sounds like they're going to trend slightly lower exiting the year.

Just wondering how to think about working capital investment longer term to support this level of growth, whether it's through CapEx, through new site investments or just working capital investments.

Patrick John Jermain

Executive VP & CFO

Yes, I can start and then maybe David can add on to it. I'd say 2 things, Melissa. I think from a days perspective, I think we're in a really good spot in this low to mid-60s going forward. I think that would carry into fiscal '27. I think the other thing to look at is with revenue growth, we're probably around 10% to 15% additional working capital dollars associated with any growth in revenue. I think that's a good barometer if you're looking at from a dollars perspective. From a days perspective, I think low to mid-60s is a good range for us.

David Abuhl

Melissa, maybe I'd build the other part of your question was about investing in even capital in the long term. We just reconfirmed our \$100 million to \$120 million of capital investment. Recently, in the last 6 months, our teams have actually improved the throughput of some of our assets by 10%, which has avoided in the neighborhood of \$20 million of capital investments. We're able to grow revenue on a very similar capital base. Those types of efficiencies are not only happening in CapEx, but also there's the same type of efficiencies in our working capital environment as well. Hence, that gives us confidence in the long term.

Melissa Ann Dailey Fairbanks

Raymond James & Associates, Inc., Research Division

Just one more question that's maybe for Oliver because he kind of touched on some of this in his commentary. I wanted to ask about some trends in industrial. We focus on semi cap and test equipment so much, but it sounds as though one of your customers, I think you do some energy storage solutions for them. They raised their full year outlook for this year, almost doubling the growth rate. In part, because of strength in power supply. I know you kind of touched on you've got some new wins in industrial for these types of applications. You've been winning in there for a long time. Just wondering how you're looking at some more near-term demand, assuming that some of these new wins are going to be longer term in scope.

Oliver K. Mihm

Executive VP & COO

Thanks, Melissa. Happy to talk about that. Yes. We are excited about our customers in the energy infrastructure space. We've talked about some wins there over the past few quarters. We also referencing back a few quarters ago, we talked about a specific regulatory compliance standard that we have for our Boise facility that enables us to do control systems for nuclear power. We think that gives us a bit of competitive differentiation, which enables some of this growth that we're seeing in this subsector.

Yes. I would lead that through to saying our excitement there also extends into the adjacencies that we're seeing here relative to data centers. We talked about a win here this quarter specific to a power platform solution, but just the funnel that we have related to items in the data center, whether that's power management and storage, thermal cooling, thermal density, fluidics, really well aligned to our value proposition and capabilities.

Then again, the energy distribution and infrastructure, we just talked about storage control systems, we're also seeing companies push AI out to what has been referred to as at the edge. On equipment, on devices, these are often ruggedized applications, and so the redesign to put that -- those solutions in place, the manufacturing and then the need to sustain those and service those, we view as being really well aligned to our capabilities and strength, and we have a very strong and active funnel in that space..

Operator

Your next question comes from the line of Ruben Roy with Stifel.

Ruben Roy

Stifel, Nicolaus & Company, Incorporated, Research Division

Congratulations to all, but especially Pat, thanks for all the help, Pat. David, obviously, congratulations, too. Pat, before you go, maybe we'll start with you. Todd, in his prepared remarks, mentioned sustained momentum well beyond fiscal '26. I'm wondering if we can just maybe think a little bit about the operating margin structure of the company as you sort of line up a funnel of new wins, etc. It's probably premature and you're probably not going to give us a longer-term target above what above 6 means.

Just in terms of some of the wins that are coming into the funnel, etc., maybe you could walk us through the puts and takes across the different segments on how we should think about that operating margin? I have a follow-up, which is sort of similar for Oliver after we talk about this a bit.

Patrick John Jermain

Executive VP & CFO

Sure. Yes, and I'll start if others want to join in. Ruben, the margin differential between market sectors is not that different nowadays with the markets we're serving. With the additional wins, there is some ramping costs that's involved. That's a little bit of a drag on our margins, but the fixed cost leverage we're gaining both on our fixed costs and SG&A definitely overrides that and provides that target of 6% or above.

As we look to F '27, yes, we're not going to make any new commitments at this point, but seeing a consistency in that margin performance. Going back a few years ago, when we saw that consistency is when we started to think about what is that next target. I think we'll be in that position, but obviously not wanting to commit to anything at this point. I think there's definite opportunity with the fixed cost leverage, some of the services we're providing around sustaining services and engineering that carry higher margins. Then probably around the automation efforts, David talked about some of that with capital spending, the impact that has on margin is pretty pronounced. I think you'll see benefits there as well.

Todd P. Kelsey

President, CEO & Director

Yes. One of the things that I would add is with the -- what we would expect is improving or increasing margins as we continue to move out, and that's because of the leverage that we'll be gaining as well as the operational efficiency initiatives. We're probably not too far from establishing a new target. Pat's been working on it with David and the finance team, and we'll let David get comfortable in the chair for a couple of quarters perhaps before coming out with a new target here.

Ruben Roy

Stifel, Nicolaus & Company, Incorporated, Research Division

If I pull that sort of discussion and maybe pull in working capital near term, Oliver, you called out some tightening supply chain conditions, and that's been a consistent sort of theme across a lot of calls so far in earnings season. Wondering if you could maybe give us a little more detail on what you're seeing around supply and whether or not that's acting as a little bit of a gating factor as you think about some of the program ramps embedded in your Q3 or fiscal year guidance here. Obviously, the raise is great to see, but what are the puts and takes against supply and sort of the demand improvement you're seeing across the end markets?

Todd P. Kelsey
President, CEO & Director

Yes. Maybe I'll start with this, Ruben, and Oliver can jump in and provide additional color. I think as we set our forecast, we certainly have taken into account the realities of the supply chain. I think I don't feel like we have undue risk as a result of supply chain within our forecast right now. Now there's certainly more upside that exists should things go in the right direction for us. The other thing that we're doing is we're working very proactively with our customers around, call it, the golden screws to make sure that we get supply for those tough to obtain parts.

Oliver K. Mihm
Executive VP & COO

Yes. More specifically there, the specific commodities that we are seeing allocation or tightening, Ruben, portions of semiconductor, portions of passives, memory, no surprise for anybody, raw PCB fabs, Behind that, lead times extending, but not allocation yet around extended lead times around high-performance passes, magnetics and some portions of microcontrollers.

As Todd noted, a lot of proactive work here, asking our sourcing teams to identify risk early that enables a consultative engagement with our customers, asking them to extend forecast visibility, expand alternates, enable some advanced materials planning from our side, for instance, early PO placement, extended PO horizon. Then I would just generally say that the interconnection between those teams and the processes around that were well honed during the constrained market post-COVID, and so we're seeing that bring to bear today, including some AI tools that we had developed to help interrogate the open market and find supply for us.

Operator

Your next question comes from the line of David Williams with Needham.

David Neil Williams
The Benchmark Company, LLC, Research Division

Pat, let me say congratulations, and we will certainly miss you very much. I hate to see you go. David, welcome, and I look forward to working with you.

Maybe first on the capacity side, you've talked about that \$100 million to \$120 million this year. Just kind of curious, do you think that you can keep up some of the automation efforts and some of these efficiencies? Can you keep up with the type of demand that you're seeing in front of you? Or should we think maybe next year, you'll need some additional greenfield capacity expansion that you haven't considered or haven't thought in the past that you would need just given the strength of the demand?

David Abuhl

Yes. Thanks, Dave. That's a good question. We're really pleased with the results our teams are delivering with those efficiencies and throughput we talked about. At this point, if we think about our capacity around the world, it's really well balanced. We think we can service well in excess of \$5 billion in annualized revenue, but then as the growth continues, we're going to just going to continue to reassess how our sites are doing, where we might need to invest in capacity. At the moment, we're feeling pretty good about what we have.

With the growth, it depends on the type of product and the location, but at the moment, we're sticking to that guidance, and we're going to continue to drive efficiency with our footprint. We have a lot of initiatives that are increasing the utilization within our current sites. That progress is going to continue. So far, so good, David, but we're constantly assessing the situation for sure.

Oliver K. Mihm
Executive VP & COO

One of the things I'd also note is with -- David, with our newer building deployments that we do, the way we put those into play enable us to add incremental capacity without substantial CapEx. That enables us to add some additional bricks-and-mortar footprint when we need to.

David Abuhl

Yes, I thought that was an important point to add.

David Neil Williams
The Benchmark Company, LLC, Research Division

Then maybe secondly, just you talked about the exceptional strength of defense and the semicap. I guess in this environment, as we think about this demand, how much of this do you think is demand driven from the efforts you put in previously versus just the backdrop is so heavy in terms of that demand that you're just seeing more shifting to you. I guess I'm trying to ask how much is share gains because of your operational excellence versus what do you think just the market overall is being pushed towards you?

Todd P. Kelsey
President, CEO & Director

Yes. There's large components from both, David. We've got significant share gain in semiconductor capital equipment that's going on right now and continues even through this quarter. We also are gaining share within aerospace and defense on several of the subsectors with defense being a significant one, but those markets are good, too. We're getting a double benefit, I would say, in that we're taking share in a really strong market. We expect some excellent growth within those markets that far exceeds market growth.

Operator

[Operator Instructions]. Your next question comes from the line of Steven Fox with Fox Advisors LLC.

Steven Bryant Fox
Fox Advisors LLC

First of all, Pat, thanks very much for all your help over the years. Always a pleasure to work with you. I guess, first of all, just maybe following up on that operating margin question. Can you give us a sense for how operating leverage is developing numerically? Obviously, not an exact number, but qualitatively from the sense you have some puts and takes in there. You're seeing margin expansion. How do we think about sort of the drop-through in this type of environment? Is it similar to what you've seen in prior up cycles? Or is there more investment going on that we should maybe consider a little less margin expansion? I was curious if you can provide more perspective there. Then I have a follow-up.

David Abuhl

Yes, Steven, this is David. As we think through the leverage and drop-through, typically, we can see maybe a 10% to 12% drop-through on revenue growth. Obviously, as we're driving our efficiency initiatives, we can see not only that leverage, but also some drop-through of other improvements, but we're also investing in capabilities. For example, we've got the next generation of cybersecurity maturity models we're investing in to help us win new revenue, and so we need to balance what we're doing with the efficiency, whether it's dropping to the bottom line, but or enabling the next level of revenue growth. We're confident that we're going to see that leverage come through and it's fairly typical to what we've seen before, and we're in a great period of driving efficiency and balancing that with investment. So yes, that 10% to 12% drop-through is probably what you should keep in mind.

Steven Bryant Fox

Fox Advisors LLC

Then in terms of the aerospace market, you guys threw a lot at us just now? I know last quarter, you also had a huge amount of wins in that space. Can you give us a little more sense on sort of ranking the drivers here? How much is just some of these new markets like space really accelerating? How much is your own market share gains or new wins or new capabilities? There's a lot to unpack there. I was wondering if you could just sort of give us a sense for what's most important.

Oliver K. Mihm

Executive VP & COO

Yes. Steven, this is Oliver. I'll take that. If I break that sector down within -- and this is going to build a little bit on what Todd just talked about a second ago or a minute ago. Within defense and space, we see both the benefit of new program wins as well as end market demand driving the growth there. Within commercial aerospace, that's largely just organic growth. Then within commercial aerospace, I'll also note that similar to prior quarters, our message that we really haven't seen a significant pull-through of additional end market demand due to recovery at the primes and how they're doing the production, right, or the OEMs and how they're doing their production. We still have upside to bring to bear there as their production rates increase. Does that give you the insight you're looking for?

Steven Bryant Fox

Fox Advisors LLC

Pretty much. I mean just to follow up real quick, like the new programs that you won last quarter, I guess, can you talk about how that influences maybe the growth in coming quarters? When would we start to see it and whether it fits within all those buckets like you described? Or is there's something different going on that we should think about as an inflection?

Oliver K. Mihm

Executive VP & COO

Yes. Certainly, it fits within those buckets. I recognize the answer it depends, isn't going to be super helpful, Steven, but let me add some more words there. As we look at new program ramps, based on sectors, based on customers, we can get quite a bit of variation in terms of how long that we can hit that revenue rate. If we're starting from scratch, say, it's a new customer win, and we've got to ramp up the supply chain, potentially the customer, they have some end market regulatory work that they got to do if it's in, say, healthcare, life sciences, that can be a 6- to 8-quarter ramp for us to get into production and start hitting some volumes.

We try to note in our comments this morning, if it's an existing customer, an add-on product or even with an existing customer, if it's a new product, you've got some supply chain work already there and our ability to ramp into production is faster.

Shawn Matthew Harrison

Vice President of Investor Relations

Steve, it's Shawn. Just to get a bit more acute for you, some of the wins we had in aerospace and defense in our first fiscal quarter will contribute to the latter part of this fiscal year. Capacity is already coming online, and so that is a little bit of a help this year, but it's actually a greater contributor to fiscal 2027 and beyond. A lot of the growth we're seeing right now is based either upon programs or market share gains that we had over the course of the past couple of years. This sustains the momentum as Todd talked about into '27 and beyond.

Operator

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

Anja Marie Theresa Soderstrom

Sidoti & Company, LLC

Congratulations on the great quarter and guidance and on the retirement path and appointment, David. Looking forward to be working with you. A lot of my questions have been addressed already. In terms of -- I just want to check with the Malaysia facility. You mentioned last quarter that you expected that to break even in terms of margins in the second quarter. How is that tracking?

Todd P. Kelsey

President, CEO & Director

It was a little bit behind breakeven this past quarter and the reason being that the revenue is actually ramping faster there. We're making additional investments early on, but we're still on track to exit the fiscal year with having strong profitability.

Anja Marie Theresa Soderstrom

Sidoti & Company, LLC

Then just with the targets that you set for the Healthcare and Life Sciences for the full-year and the third quarter, how should we think about the growth there going forward? It seems like that's going to be slowing down a bit or coming down.

Oliver K. Mihm

Executive VP & COO

Yes. I would say that we see -- I talked about the sequential growth we're looking at in Q4. We also talked about the wins here this quarter, historical wins from F '25, quite strong, which will help to create some sustained growth as we look to F '27.

Anja Marie Theresa Soderstrom

Sidoti & Company, LLC

Just one last question on the competitive environment. Have you seen any sort of changes there at all in the...

Oliver K. Mihm

Executive VP & COO

Yes. I'm reflecting, Anja. I don't think we've seen any significant changes from the competitive environment. In fact, we have noted that in this past quarter, the number of large opportunities that we've won had a slight uptick, which we view as positive both for how we're conveying ourselves in the marketplace and our ability to differentiate.

Operator

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

Todd P. Kelsey

President, CEO & Director

Thank you, Ben. I'd like to thank our shareholders, investors, analysts and our Plexus team members who joined the call this morning. In closing, we're generating significant momentum, and I anticipate that fiscal 2026 will be a great year for Plexus and set us up for a strong fiscal 2027. Thank you again to our team members, our customers and our shareholders. Have a great day.

Operator

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

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