Plexus Corp. NasdaqGS:PLXS

Earnings Call

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Call Participants

EXECUTIVES

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CFO & Senior VP

Shawn Matthew Harrison
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Todd P. Kelsey
President, CEO & Director

ANALYSTS

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Ruben Roy
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Presentation

Operator

Good morning, everyone. Thank you for joining us for the Plexus Third Quarter Earnings Conference Call. [Operator Instructions] On the call today to answer your questions after the presentation are Todd Kelsey, President and CEO; and David Abuhl, CFO and Senior Vice President.

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

Shawn Matthew Harrison
Vice President of Investor Relations

Good morning, and thank you for joining us today. Some of the statements made and information provided during our call today will be forward-looking statements, including, without limitation, those regarding revenue, gross margin, selling and administrative expense, operating margin, other income and expense, taxes, cash cycle, capital allocation and future business outlook. Forward-looking statements are not guarantees since there are inherent difficulties in predicting future results, and actual results could differ materially from those expressed or implied in the forward-looking statements.

For a list of factors that could cause actual results to differ materially from those discussed, please refer to the company's periodic SEC filings, particularly the risk factors in our Form 10-K filed 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; and David Abuhl, Senior Vice President and Chief Financial Officer. Unfortunately, Oliver Mihm, our Executive Vice President and Chief Operating Officer, is unexpectedly feeling unwell and could not make the call today. Oliver will join us on our fiscal fourth quarter call.

With today's earnings call, Todd will provide summary comments before turning the call over to me and David 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. Earlier this week, a devastating tornado struck near our corporate headquarters, causing significant damage to our local community. Our thoughts and prayers go out to all of those impacted. Thankfully, no fatalities or missing persons were reported. There was no material impact to Plexus' operations or our headquarters.

Please advance to Slide 3. Our differentiated value proposition focused on unmatched quality and delivery is creating customer success. Plexus generated record revenue in the fiscal third quarter by capturing strengthening end market demands and successfully launching numerous new programs. As a result, we see Plexus positioned to deliver more than 20% revenue growth for fiscal 2026. We anticipate Plexus will sustain this momentum and currently see the potential to generate fiscal 2027 revenue growth in excess of our 9% to 12% goal.

Furthermore, we expanded our funnel of qualified manufacturing opportunities to a record level, creating the potential to sustain strong long-term revenue growth. We delivered solid operating performance with a robust 6.3% non-GAAP operating margin for our fiscal third quarter. We anticipate further strong operating results for our fiscal fourth quarter. Consequently, we expect our fiscal 2026 non-GAAP operating margin to exceed 6% and see the potential for continued operating margin expansion in fiscal 2027.

Finally, our working capital efficiency remains robust while supporting accelerated revenue growth. Fiscal third quarter cash cycle exceeded our expectations and was the best in more than five years. We expect to sustain this performance into fiscal 2027 and anticipate a return to meaningful free cash flow generation.

Please advance to Slide 4. With all three of our market sectors contributing better-than-expected performance, fiscal third quarter revenue of $1.305 billion exceeded our guidance range, representing a 12% sequential and a 28% year-over-year increase. Additionally, non-GAAP operating margin of 6.3% met the high end of guidance, increasing 30 basis points year-over-year on continued efficiency gains and revenue leverage. Finally, non-GAAP EPS of $2.32 exceeded our guidance range.

Please advance to Slide 5. Our go-to-market team continued to drive strong performance. For the third quarter, we secured 31 new manufacturing programs with $255 million in annualized revenue when fully ramped into production. This result included an exciting new partnership in our industrial market sector supporting battery energy storage systems for data centers as well as another robust contribution from our aerospace and defense market sector of $135 million. Year-to-date, our $400 million of aerospace and defense wins represents a result more than 2x our combined fiscal 2024 and 2025 performance. This positions us for long-term secular market outgrowth. Furthermore, aerospace and defense engineering solutions wins were significant. Finally, our funnel of qualified manufacturing opportunities expanded to a record $4.5 billion in support of sustaining robust long-term revenue growth.

Please advance to Slide 6. At Plexus, we are committed to advancing sustainability through our value of innovating responsibly. Our customer partnerships are central to our strategy. During our fiscal third quarter, ASM honored Plexus with its Supplier Performance Award for overall Supplier Excellence and Prism Sustainability Award for circularity. These recognitions underscore our commitment to deep customer collaboration and advancing sustainable practices across our value chain.

We also continue to take proactive steps to reduce our environmental footprint. Earlier in July, we were thrilled to receive the Gold Award for renewable energy at the Positive Impact Awards in Malaysia, highlighting our dedication to renewable energy adoption and sustainable manufacturing. As of fiscal 2026, all of our Penang facilities operate on 100% renewable energy through a combination of on-site generation and purchased renewable energy.

Finally, we continue to build trust through transparency. In June, we released our annual sustainability report that showcases our commitment to innovating responsibly and establishes our formal greenhouse gas emission reduction targets. I'm grateful for the continued recognition by our customers and our communities of our global team members' efforts to live our values, deliver excellence and create a lasting positive impact.

Please advance to Slide 7. For our fiscal fourth quarter, we forecast continued revenue strength led by our industrial market sector. We are guiding revenue of $1.33 billion to $1.38 billion, representing 4% sequential and 28% year-over-year growth at the guidance midpoint. We are also guiding non-GAAP operating margin of 6.1% to 6.5% and non-GAAP EPS of $2.47 to $2.63.

Due to success in launching numerous new programs, market share gains and support of disruptive technologies, we are driving sustained momentum and revenue growth in excess of market growth. As a result, we now anticipate generating greater than 20% revenue growth for fiscal 2026 with greater than 6% non-GAAP operating margin and disciplined working capital efficiency.

Finally, our differentiated value proposition focused on providing unmatched quality and delivery is resulting in robust performance. This focus has positioned Plexus to sustain momentum for fiscal 2027 and beyond. For fiscal 2027, we currently see the potential to maintain quarterly sequential revenue expansion and generate revenue growth in excess of our 9% to 12% goal. Supporting our bullish outlook is continued strong growth from our aerospace and defense and industrial markets, including semiconductor capital equipment with continued growth in Healthcare/Life Sciences.

Finally, during fiscal 2027, we anticipate delivering operating margin expansion while continuing to make important investments in talent and technology in support of future growth and operational efficiency. We also expect disciplined working capital efficiency, prudent capital expenditures and a return to meaningful free cash flow generation.

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

Shawn Matthew Harrison
Vice President of Investor Relations

Thank you, Todd. For each of our market sectors, I will discuss our fiscal third quarter performance and our expectations for our fiscal fourth quarter, provide an updated fiscal 2026 growth outlook, review the annualized revenue contribution of our quarterly wins performance and offer preliminary growth commentary for fiscal 2027. I will also provide an overview of our record funnel of qualified manufacturing opportunities.

Beginning with our aerospace defense sector on Slide 8, following robust 19% sequential growth last quarter, fiscal third quarter revenue increased 10% sequentially. Growth was better than our expectation of a mid-single-digit increase. The common theme for this quarter, outstanding execution from our supply chain and operation teams helped to accelerate the capture of robust demand from multiple customers.

For our fiscal fourth quarter, following three consecutive quarters of strong sequential revenue growth, we expect revenue to be approximately flat versus our fiscal third quarter and to increase more than 30% year-over-year. We anticipate a return to sequential revenue growth in our fiscal first quarter 2027. Finally, for fiscal 2026, we now expect our aerospace defense sector to deliver outstanding revenue growth of more than 20%, led by our defense and unmanned subsectors.

Fiscal third quarter wins for the sector were a very strong $135 million. Our teams in Boise, Idaho, and Oradea, Romania won a secure wireless communication system with a new defense and security customer. Our ability to provide dual region support will ensure U.S. and EU regulatory compliance for the customer. Furthermore, the win helps in establishing our Oradea, Romania site as our center of defense excellence in Continental Europe. Our focus on superior customer service also led an existing customer to award our Boise team a naval submarine electronics program.

As we look ahead to our fiscal 2027, we see the potential for continued robust revenue growth for our aerospace defense sector that should well exceed our 9% to 12% goal. We anticipate exceptional growth from our defense, unmanned, security and space subsectors associated with program ramps, market share gains and robust end market demand as well as continued commercial aerospace demand improvement.

Please advance to Slide 9. Healthcare/Life Sciences market sector revenue increased 2% sequentially for our fiscal third quarter. The result exceeded our flat revenue growth forecast due to our successful support of program ramps and improved customer demand. For the fiscal fourth quarter, we expect approximately flat sequential revenue with delays in program ramps offsetting stronger customer demand. For fiscal 2026, we now anticipate revenue to increase in the high teens year-over-year, an excellent result and well ahead of our estimate of mid-single-digit healthcare life sciences market growth.

We generated fiscal third quarter wins of $53 million. Our team in Neon, Wisconsin won a prototype build of instruments utilized in the customer's surgical robotics platform that Plexus currently supports. Next, our teams in Haining, China, and Oradea, Romania won the production of a next-generation ultrasound platform. Our long-standing relationship with this leading healthcare customer and our ability to provide global support drove the market share gain. Finally, our strong engineering relationship and long-term record of superior execution resulted in a follow-on award for our team in Penang, Malaysia to produce a market-leading patient monitoring device.

As we consider fiscal 2027 for our Healthcare/Life Sciences sector, we see the potential to achieve at least mid-single-digit revenue growth against a market estimated to again grow in the mid-single digits. We expect to continue to benefit from program ramps and strong demand for surgical robotics and therapeutic and monitoring solutions. However, we expect short-term growth moderation as activity normalizes following a year of tremendous success in helping numerous customers launch new products.

Advancing to the industrial sector on Slide 10. Fiscal third quarter revenue increased 23% sequentially, well ahead of our forecast for low double-digit growth. Our team's ongoing delivery of operational and supply chain excellence in support of expanding demand in our semi-cap and other industrial subsectors drove the outperformance. For the fiscal fourth quarter, we expect high single-digit to low double-digit sequential revenue growth associated with strengthening end market demand and program ramps. As a result, we now anticipate revenue for fiscal 2026 to increase by a very strong 20-plus percent.

Market sector generated $67 million in wins for the fiscal third quarter. The wins included a new partnership to build battery energy storage systems used by data centers and awarding the program to our Bangkok, Thailand team, a customer valued engagement by Plexus' leadership, our transparent communication and expert technical insights. Initial production for this program is already underway. Our team in Guadalajara, Mexico also won a follow-on award for an innovative vehicle imaging and inspection system.

Lastly, we see the potential for a very strong fiscal 2027 from our industrial sector with revenue growth that should well exceed our 9% to 12% goal. We expect another year of robust growth from our semi-cap sub-sector along with strong demand for industrial automation and robotics, test and measurement and energy management and storage solutions.

Please advance to Slide 11 for a review of our funnel of qualified manufacturing opportunities. The funnel reached another record this quarter. For our fiscal third quarter, our funnel was $4.5 billion, an increase of 12% sequentially and 23% year-over-year or growth of more than $800 million. Within this performance, our aerospace, defense and industrial market sectors also achieved record funnels. Our differentiated value proposition, which is focused on providing unmatched quality and delivery continues to create opportunities in support of sustaining a strong and durable long-term revenue growth trajectory.

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

David Abuhl
CFO & Senior VP

Thank you, Shawn, and good morning, everyone. Our fiscal third quarter results are summarized on Slide 12.

Gross margin of 10.1% was in line with our guidance. Benefits from revenue leverage and continued operational productivity gains more than offset inflationary pressures and other cost increases. Selling and administrative expense of $70.1 million was in line with guidance and included typical stock-based compensation expenses as well as those related to executive retirement. Excluding these expenses, we gained nearly 50 basis points of leverage compared to our fiscal second quarter.

Our non-GAAP operating margin of 6.3% met the top end of our guidance, benefiting from leverage on revenue growth, operational efficiencies and continued cost discipline. Nonoperating expense of $4.8 million was favorable to expectations, driven by additional interest income. Non-GAAP diluted EPS of $2.32 exceeded the top end of our guidance due to higher revenue and the other items mentioned, partially offset by a tax rate at the upper end of our guidance.

Turning to our cash flow and balance sheet on Slide 13. For the fiscal third quarter, we delivered $25.9 million in cash from operations and spent $26.6 million on capital expenditures, resulting in a better-than-expected free cash flow usage of just under $1 million. We repurchased $20.6 million of our stock in the quarter, and we have approximately $21 million remaining on the current repurchase authorization. As we continue to invest in our growth trajectory, we will also return cash to shareholders through our repurchase program. We will discuss our next share repurchase authorization with our Board in August.

We ended the third quarter in a net cash position, and we had $172 million outstanding under our revolving credit facility with over $320 million available to borrow. Return on invested capital was 14.9% in the fiscal third quarter, which was the highest in several years and 590 basis points above our weighted average cost of capital. Despite an increase in invested capital to support our robust revenue growth, we continue to generate healthy ROIC.

Now turning to cash cycle days on Slide 14. We delivered a 62-day cash cycle in the fiscal third quarter, which is the best quarterly result in over 5 years. Our team continues to drive improvements across all areas of working capital, including notable progress in days of inventory.

Now let me turn to our guidance for the fiscal fourth quarter summarized on Slide 15. As Todd has already provided the revenue and EPS guidance, I will review some additional details. Fiscal fourth quarter gross margin is expected to be in the range of 10% to 10.3%. At the midpoint, gross margin will be modestly higher than the fiscal third quarter as we expect ongoing productivity improvements and leverage from higher revenue to offset investments in capabilities and IT as well as other cost increases.

Our outlook for selling and administrative expense for the fiscal fourth quarter is in the range of $57.5 million to $58.5 million. We expect to gain leverage versus the prior quarter on higher revenue. Fiscal fourth quarter non-GAAP operating margin is expected to be in the range of 6.1% to 6.5%, exclusive of stock-based compensation expense. At the midpoint, Plexus would demonstrate another quarter of good progress toward our goal of consistently delivering non-GAAP operating margin at or above 6%.

We also anticipate meeting this goal for fiscal 2026. As we consider fiscal 2027, we anticipate expansion in operating margin to accompany our robust revenue growth outlook. We continue to benefit from leverage on higher revenue and our prior investments in operational efficiency while concurrently making strategic investments in incremental operational efficiency, expanding our competitive moat, especially in aerospace and defense and investing in our people. We will discuss more about our fiscal 2027 outlook, including future expectations for operating margin with our fiscal fourth quarter earnings call.

Nonoperating expense in the fiscal fourth quarter is anticipated to be approximately $6.3 million, up sequentially primarily due to higher interest expense. And for fiscal 2027, we would expect the quarterly run rate to be slightly higher due to higher interest expense. We are estimating a non-GAAP effective tax rate of between 12% and 14% for the fiscal fourth quarter, bringing the full fiscal year 2026 rate to between 15% and 17%. For our fiscal 2027, our preliminary view is a non-GAAP effective tax rate between 16% and 18%.

In support of our accelerating revenue momentum, we continue to strategically increase our working capital investments. Yet through our focus on working capital efficiency, we still expect to end the fiscal year with cash cycle days in the low to mid-60s. We would expect to sustain this performance during fiscal 2027. Additionally, given our robust revenue outlook, we've made the decision to expand production capacity at one of our sites in Malaysia. Because of our ability to expand existing facilities, we expect to be able to deliver incremental capacity and maintain fiscal 2027 capital expenditures in a range of 2% to 3% of revenue.

For fiscal 2026, our capital expenditures forecast is unchanged at $100 million to $120 million. As a result of these factors and the timing of our working capital investments, we are now forecasting free cash flow in the fiscal fourth quarter to be breakeven or a slight usage of cash. However, we would expect to return to meaningful free cash flow generation in excess of $100 million for fiscal 2027, benefiting from our sustained robust profitability, prudent capital expenditures and our focus on working capital efficiency. With that, Dara, let's open the call for questions.

Question and Answer

Operator

[Operator Instructions] Your first question comes from David Williams with Needham & Co.

David Neil Williams
Needham & Company, LLC, Research Division

Maybe first, just kind of thinking about, obviously, the outlook and your commentary is very positive as we look out into 2027. I guess as you kind of think about those trends, how should we maybe think about your capability of supply and meeting that demand next year? Are there other additional capacity expansion plans that we'll need or any other things we should be thinking about and maybe your confidence level in kind of that growth trajectory?

Todd P. Kelsey
President, CEO & Director

Yes. I would say, first of all, our confidence level in our growth trajectory that we put out there is high. Our supply chain team, and we take into account we're mindful of the tightness of the supply chain right now. And as we provide projections, whether it be for Q4 or for fiscal 2027, that has that in mind. Our team is doing a great job of managing through those, as you saw with our Q3 results and the reason why we got upside was the job that our supply chain team did in managing through that.

And with respect to capacity, I mean, given the substantial growth, we're certainly pulling in our expansion plans. As David mentioned, we'll be adding additional capacity to our new site in Penang, Malaysia, which we're able to do rather efficiently. And we're, I guess, being thoughtful about other regions about when and if we need to expand within those regions.

Probably the final category with regards to expansion is around people and making sure we have the right people in place. Now our efforts around efficiency have helped us in that area in that we don't need to add as many people as we would have previously needed to, to support the revenue growth, but we continue to add people. And as of right now, everything looks fine from that perspective as well, too. So I would say we feel good about the projections of exceeding our 9% to 12% revenue growth target for '27.

David Neil Williams
Needham & Company, LLC, Research Division

Okay. And then maybe just on the semi-cap equipment space and maybe the broader industrial, it sounds like everything there is improving, even maybe broadening out a bit on the demand side. How do you think about the semi-cap equipment? And as you look and talk to your customers, are your forecast and visibility, is that expanding or contracting? How do you think about maybe that just that semi-cap equipment specifically and then maybe the broader industrial as well?

Shawn Matthew Harrison
Vice President of Investor Relations

David, it's Shawn. So semi-cap equipment, we're delivering robust growth this fiscal year. We anticipate robust growth next fiscal year. I think we've been pretty straightforward that we expect to outgrow WFE as we have historically based upon additional customer acquisitions as well as just market share gains that we had during the last up cycle as well as the time period that cycle flattened out. So really strong growth.

Visibility has improved into fiscal 2027 as well, which does help give us that confidence and allows us to make sure that we're getting materials in place to support that growth. So doing extremely well in that market sector and market sub-sector outperforming the market.

In broader industrials, the market is getting a little bit healthier. We had a long period of inventory digestion. But I think that the key for us is we're expanding our customer base, expanding into technologies where we didn't play previously. Last quarter, you heard about power into the data center.

This quarter, you're hearing about energy storage outside the data center. But adding new and exciting customers in addition to the market health is giving us confidence for growth in 2027.

Operator

Your next question comes from Ruben Roy with Stifel.

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

Congrats team on the strong momentum into the fiscal year-end. I guess, Todd, to start and maybe a follow up on David's question, you guys are on track to exit the fiscal year at well over a $5 billion run rate. I'm just wondering, Todd, if we kind of build this out over the next several years, three, four years and Plexus sort of grows even after next year back to sort of your stated compounded annual growth goal of 9% to 12%. I mean you guys are probably going to be start thinking about $8 billion to $10 billion revenue company. And I'm wondering if you could talk a little bit more about if there are structural changes needed to get there, manufacturing, engineering, sustaining services, geographic balance of the manufacturing footprint, anything else that you're thinking about today as sort of the business is inflecting in a lot of your markets?

Todd P. Kelsey
President, CEO & Director

Yes, Ruben, it's interesting because we've been really starting to think about that growth trajectory probably two to three years ago. So a lot of the energy we've been putting in is thinking about what do we need to do to scale to be this $8 billion, $10-plus billion company. So some of the internal processes that we put in place like our sales inventory operations planning process, for instance, some efforts that we put in around driving consistency through the NPI process across the globe and driving stronger performance in that area have played into that. We've also done some things from an organizational standpoint with the way we've aligned the organization. We think from a standpoint of services, we're in pretty good shape right now from what we can see.

And what we like about footprint is we like this whole idea of the campus model. So I think you'll continue to see us, for the most part, expand in areas where we're already located because we think that works really well from an efficiency standpoint as well. But we're taking a number of steps to make sure that we're prepared for that level of growth.

David Abuhl
CFO & Senior VP

Yes. And Ruben, this is David. Maybe just a quick build. On our last call, we talked about the efficiency that our teams are driving in operations. And as Todd mentioned this, we've been on this journey of preparedness for a little while. And in the last 12 months, our teams have been able to improve our operating equipment effectiveness tremendously in some areas over 10%. And that's unleashing capacity, and we're not done yet. Even on our internal footprint, much less the additions we're talking about to our campuses.

So we like where the dots are on the map, so to speak, from a manufacturing standpoint, and we're able to add ample capacity to our existing sites through either turning on a cold shell and warming that up or even expanding the throughput on existing sites, we're really pleased with.

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

Great. For a follow-up, maybe I'll ask a question to Shawn here. And if you look at the guide for next year and you look at the segments, aerospace and defense and industrial now, Shawn, are over 60% of revenue. You guys have typically targeted healthcare at sort of mid-single-digit growth. So that's not going to drive a lot of the growth next year if that ends up happening. So maybe you could just talk through kind of what you're seeing to get to what we would assume would be sort of strong double-digit growth in those -- in the aerospace and defense and industrial businesses.

And I guess if you could talk, Shawn, a little bit about how much of that growth you think is coming from just the market dynamics, especially in places like semi-cap versus maybe share growth?

Shawn Matthew Harrison
Vice President of Investor Relations

Yes. Thanks, Ruben. So you're correct. We're going to need strong growth from aerospace and defense. I'll let you do the math to back into what the percentage must be to get us above 12% for next fiscal year, but it's going to be very, very strong growth. Within industrial and specifically semi-cap, we would expect to outgrow WFE again next year. So that could help you triangulate a little bit the growth profile there.

Within our industrial markets, I mentioned earlier that it is getting healthier, but we are adding new customers that are amplifying that growth profile. Within aerospace and defense, the one sector or subsector that still isn't fully growing rapidly is commercial aerospace. We still think there's upside for that subsector in fiscal 2027 as Boeing and Airbus continue to get healthier, and that is around 1/3 of that market sector. And so there's some upside there, but just tremendous growth in defense, unmanned, security and space. We have clear leadership positions.

Todd mentioned $400 million of wins year-to-date. Some of those actually will ramp in fiscal 2027, amplifying that growth outlook in addition to just the markets there, in particular, in defense and unmanned are quite strong, but our leadership is amplifying that growth.

And then finally, in healthcare, we would expect to get back to our normal growth algorithm after fiscal 2027. We had a tremendous year this year in launching new products, substantially outgrowing the market, growing in the high teens. And typically, when you launch new products, there's a little bit of a digestion period, and we'll see that in fiscal 2027 before growth gets on track. But we do expect that sector to again grow in the 9% to 12% long term. So hopefully, I answered all the questions. I know there's a lot to cover.

Operator

Your next question comes from Melissa Fairbanks with Raymond James.

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

Congrats on the record results, and I am sorry to hear Oliver is not feeling well. I hope he gets better very soon. I had kind of a more general question. We've heard a lot about extending lead times for components, price increases in semis, obviously, higher memory costs. So a lot of companies are starting to preplace inventory ahead of where they see their demand going. And I believe that you've commented that you do have some preplacement going on maybe a quarter or two ago. Just wondering how that might impact cash conversion or cash cycle?

David Abuhl
CFO & Senior VP

Melissa, this is David. Yes, so to your point, the supply chain is tightening and yet we're very pleased, as Todd said, at how our supply chain teams are managing through that. And there are some components where we're working very closely with our customers on the forecast, on which components we need to get ahead of. And so we've been taking action on that. And so hence, you're seeing our ability to unlock revenue growth in a rapid sense. But there are tight spots. We're not going to gloss over that.

And yet we're also very pleased with the discipline that our teams are using to approach this. Our sales inventory and operating plan process that Todd alluded to as well is really paying dividends for us. And so we're pleased to see that overall cash cycle days are in the low to mid-60s. And honestly, a result that we're super pleased with in the quarter at 62 days, the best we've done in five years. And that included great improvement in inventory and days of inventory on hand improving even sequentially versus last quarter. So I'd say there are issues, Melisa, we're getting ahead of, but it's nothing that's insurmountable and cash cycle days are in a really good spot.

Todd P. Kelsey
President, CEO & Director

Yes. One of the things I would add, Melissa, is that typically in situations like this where we're preplacing inventory, well, we're always working with our customers on those decisions, and they're typically funding those replacements.

Shawn Matthew Harrison
Vice President of Investor Relations

And Melissa, it's Shawn, because I feel like I want to chime in as well. Our supply chain team started this process last fall. And so they started seeing tightening in certain components, and they stepped up with leadership and engaging with our customers none months ago or even longer than that to make sure that we were able to support this really strong growth that we're delivering this year.

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

Fantastic. I love it. Maybe going into a little bit of detail on the aerospace and defense side of things. I know that one of the areas you're particularly excited about is space, commercial space. So I was wondering, are you able to give us a breakdown of what the contribution from your space business is versus your traditional Boeing, Airbus business and defense?

Shawn Matthew Harrison
Vice President of Investor Relations

Yes. So this is Shawn again. As I mentioned, commercial aerospace is about 1/3 of the portfolio. Defense and unmanned is about the same size. That business will more than double in revenue versus where it was 2 years ago. And then the remainder of the portfolio is kind of equally split between security and commercial space.

Now we're seeing rapid growth in all of those, but just the even more rapid growth we're seeing in defense and unmanned isn't changing the split. We're really happy with our clear leadership in commercial space as our market sector leader there likes to say we have more electronics in orbit than any other EMS provider, and that leadership is helping us create additional opportunities. So it's growing. It's growing rapidly, but our defense and unmanned business is growing even more rapidly, which is exciting.

Operator

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

Jacob Moore
KeyBanc Capital Markets Inc., Research Division

This is Jacob on for Steve this morning. The first one, sorry to belabor the point on capacity expansion, but maybe a little bit more detail could be helpful here. Could you just help us understand the timeline for the expansion that you've announced today? What that's going to get you in terms of top line capacity versus your prior commentary for capacity in excess of $5 billion? And then how you think that, that spend and ramp will affect your margin cadence as we head into fiscal '27?

Todd P. Kelsey
President, CEO & Director

Yes. So it's already underway, the expansion, and it would be somewhere north of $0.5 billion of additional capacity we would add through this. And we wouldn't expect it to have a meaningful impact to margin because it's part of an existing facility that's already profitable.

David Abuhl
CFO & Senior VP

Yes. And Jacob, maybe a build there as well. We're able to do this and maintain our capital expenditures as a percent of revenue between 2% to 3%. So that's true as of fiscal '25, '26. We're looking in 2027, we think we can maintain that same range while we add this capacity, just given the campus approach. It's not a new dot on the map, which would require more capital-intensive work. So we're pleased to be able to keep capital expenditures in that range as we go through here.

Shawn Matthew Harrison
Vice President of Investor Relations

And Jacob, it's Shawn. We can do if the revenue lands in the right place, close to $6 billion of revenue today. And so we do have upside potential in terms of our sites depending upon where the revenue lands and this incremental capacity is to ensure we meet the strong demand we see from our customers.

Jacob Moore
KeyBanc Capital Markets Inc., Research Division

Okay. Got it. That's really helpful color. I appreciate it. My follow-up here is actually on non-semi-cap industrial. I guess, are you starting to see any pickups in the sort of more traditional industrial end markets as it appears that the broader industrial landscape gets a little bit better. What sort of trends are you seeing there in those other submarkets?

Shawn Matthew Harrison
Vice President of Investor Relations

I would say a small pickup, but our non-semi-cap industrial is a cross-section of technologies we support from industrial automation and robotics to energy management and storage to broadband communications and test and measurement.

So -- some pickup in the traditional industrial markets. But for us, it's a cross-section of technologies, and we're generally seeing stronger trends there. I wouldn't just tie it solely to industrial production, but I think just the cross-section of technologies we support as well as I mentioned earlier, just the new customers and new technologies that we've been adding over the past few years.

Operator

The next question comes from Ruben Roy with Stifel. [Audio Gap]

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

I got my follow-up Todd, I wanted to circle back on the data center power win. This is the second quarter in a row that you talked about that type of win. Is this -- how is this working? Is this opportunistic? Or is it a strategy to sort of expand in that marketplace? How large is that data center funnel today? And maybe if you could talk about the capabilities that Plexus is bringing to the marketplace that's enabling you to win there, that would be helpful.

Todd P. Kelsey
President, CEO & Director

Sure, sure. So Ruben, it is part of a broader data center strategy. Now the areas of focus for us in the data center are power, and that could be power inside the data center or power external to the data center as is the case of the win this quarter and thermal management. So we have a number of active opportunities -- well, a number of active programs to begin with. And beyond the ones we've announced, there's a few that are in very early stages of pilot type production right now, but I would call them pre-win stage right now. Then we have the two active ones that we've announced, and we have an overall funnel that's conservatively somewhere around $0.5 billion right now.

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, Dara. Thank you to the shareholders, investors, analysts and Plexus team members who joined the call this morning. In closing, as we leverage our differentiated value proposition, fiscal 2026 will be a great year for Plexus with exceptional revenue growth, solid operating margin and robust return on invested capital. We're also well positioned for strong results in fiscal 2027 with revenue growth exceeding our 9% to 12% goal, expanding operating margin, meaningful free cash flow and outstanding return on invested capital. Have a nice day.

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