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Market Intelligence

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Earnings Call

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Presentation

Operator

Thank you for standing by. My name is Bailey, and I will be your conference operator today. At this time, I would like to welcome everyone to the Plexus Fiscal Fourth Quarter 2024 Earnings Conference call. [Operator Instructions] I would now like to turn the call over to Shawn Harrison, Vice President of Investor Relations. You may begin.

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 30, 2023, as supplemented by our Form 10-Q filings and the Safe Harbor 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's website, www.plexus.com, clicking on Investors at the top of that page. [Streaming] today are Todd Kelsey, President and Chief Executive Officer; Oliver Mihm, Executive Vice President and Chief Operating Officer; Pat Jermain, Executive Vice President and Chief Financial Officer.

With today's earnings call, Todd will provide summary comments before turning the call over to Oliver and Pat for further details.

Before I turn the call over to Todd, please note that during our fiscal first quarter, Plexus will participate in Stifel's Midwest One-on-One Conference in Chicago on November 7th, the Raymond James 2024 TMT and Consumer Conference in New York City on December 10th.

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 exited fiscal 2024 with exceptional performance, a testament to the dedication and focus of our more than 20,000 team members globally. Our team's commitment to delivering customer service excellence resulted in Plexus gaining market share throughout fiscal 2024, positioning us for a solid fiscal 2025, and capturing pull-in data late in the fiscal fourth quarter, leading to the exceptional quarterly results.

In addition, our team's ongoing focus on driving efficiency and increasing operating margin resulted in Plexus achieving our 6-plus percent non-GAAP operating margin goal one year earlier than anticipated, producing robust quarterly EPS. We also generated record free cash flow of \$194 million in the quarter. The stellar free cash flow performance pushed our fiscal 2024 free cash flow generation to \$341 million, representing more than 2x our previous record annual free cash flow.

We continue to anticipate revenue growth for fiscal 2025, while noting trends within our market sectors remain mixed.

We anticipate another strong year for our aerospace and defense market sector aided by ongoing share gains and new program ramps. While we expect modest growth from Healthcare/Life Sciences and industrial market sectors supported by demand recovering in certain subsectors, new program ramps, and share gains. We remain focused on maintaining our strong operating margin performance of recent quarters, producing meaningful growth in EPS and generating free cash flow that will continue to be deployed toward creating additional shareholder value.

Please advance to Slide 4. We delivered tremendous fiscal fourth quarter financial results. Revenue of \$1.05 billion exceeded our guidance range. As the quarter progressed, we experienced stronger demand and a pull-in of activity with customers across multiple market sectors that more than offset ongoing demand weakness in the industrial market sector in the EMEA region.

Non-GAAP operating margin of 6.2% met our long-term goal, expanding 40 basis points sequentially and exceeding our 5.6% to 6.0% guidance range. Our focus on driving operational efficiency led to healthy margin leverage [and] the late quarter demand surge. Non-GAAP EPS of \$1.85 also exceeded our guidance range, benefiting from revenue upside, robust operating margin performance, further reduction in interest expense, and a favorable tax rate.

Please advance to Slide 5. For the fiscal fourth quarter, we won 26 manufacturing programs worth \$230 million in annual revenue when fully ramped into production. Included in this result is another strong quarterly contribution from the Healthcare/Life Sciences market sector of \$148 million. For fiscal 2024, our go-to-market team generated more than \$1 billion of manufacturing program wins, including a record \$568 million of program wins in the Healthcare/Life Sciences market sector, supporting our anticipation of exceptional revenue growth for this market sector over the long-term.

Please advance to Slide 6. We continue to create value for our shareholders, our team members, our customers, and communities through our sustainable and responsible business practices. The following are highlights from fiscal 2024. We reduced our waste-to-landfill by over 10% globally, double our 5% goal through increased recycling and reuse, strategic vendor selection, and reduced waste generation. We reduced our Scope 1 and 2 emissions by over 5% across Plexus's global manufacturing sites as we continue to improve operational efficiencies, optimize technology, and transition to cleaner sources of energy.

In support of our social impact efforts, we donated more than \$1 million globally through the Plexus Community Foundation. Our team members contributed over 20,000 paid volunteer hours to their local communities, surpassing our fiscal 2023 engagement. And we continue to drive sustainable and responsible business practices across our value chain. We assessed over 50% of our global supply chain spend on environmental and social factors as we help our customers deliver more sustainable products to the market.

Finally, this past quarter, we were thrilled to be named one of the Top 100 U.S. Internship Programs for 2024 by Yello, recognizing the investment in our people who are at the heart of who we are and what we do.

We also received the Business Friend of the Environment Award for Sustainability in the Large Company category presented by Wisconsin Manufacturers and Commerce. This is in recognition of our dedication to environmental stewardship, sustainable business practices, and our vision to help create the products that build a better world. Thanks to all of our team members who supported these achievements, that we will continue to build upon throughout fiscal 2025.

Please advance to Slide 7. We begin fiscal 2025 in a strong position, given healthier improved conditions for many of our market sectors and subsectors, solid fiscal 2024 new program wins performance inclusive of market share gains enabled by our focus on delivering customer service excellence, the expansion and profitability witnessed throughout fiscal 2024 associated with our focus on driving efficiency and increasing operational performance, and the EPS leverage created from deploying our outstanding free cash flow toward reducing our borrowing and completing our share repurchase program.

We are guiding fiscal first quarter revenue in the range of \$960 million to \$1.0 billion, non-GAAP operating margin of 5.7% to 6.1%, and non-GAAP EPS of \$1.52 to \$1.67. After the stronger than anticipated finish to fiscal 2024, along with an ongoing challenged demand environment in EMEA, we expect sequential revenue growth to pause with our fiscal first quarter before resuming as the fiscal year continues.

For fiscal 2025, we expect robust revenue growth within aerospace and defense, reflecting a continuation of end market strength, new program ramps, and market share gains, moderate growth in Healthcare/Life Sciences as we navigate through any remaining inventory corrections, while benefiting from new program ramps, share gains, and a modest rebound in healthcare market demand, and moderate growth in industrial, reflecting robust growth in SemiCap, exceeding third-party market recovery forecasts, but a broader industrial market that remains challenged by inventory corrections and weak demand.

We anticipate our efforts to continue to increase operational efficiency will result in maintaining the strong operating margin performance of recent quarters, while EPS should witness meaningful expansion, leveraging revenue growth, strong profitability, and the ongoing benefits from deploying our substantial free cash flow generation toward creating shareholder value.

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

Oliver K. Mihm
Executive VP & COO

Thank you, Todd. Good morning. I will begin with a review of the fiscal fourth quarter performance of each of our market sectors, our expectations for each sector for the fiscal first quarter, and some directional sector commentary for fiscal 2025. I will also review the annualized revenue contribution of our wins performance for each market sector and region, 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 fourth quarter, above our expectation for flat revenue. Multiple customers drove the revenue upside, reflecting increased demand inside the quarter and stronger than anticipated demand for our engineering solutions, which more than offset cautiousness stemming from uncertainty in the commercial aerospace subsector.

Consistent with prior guidance, fiscal 2024 represented a very strong growth year for the aerospace and defense sector with revenue up 21%, exceeding the robust growth we saw in fiscal 2023 of 17%. We expect revenue for the aerospace and defense sector to decline high single-digits in the fiscal first quarter, with the pooling of activity into Q4 and customer conservatism in the commercial aerospace subsector, more than offsetting strength in our space subsector.

Our wins for the fiscal fourth quarter for the aerospace and defense sector were strong at \$45 million, and included a complex product assembly for our Boise, Idaho facility. This program win further solidifies our relationship with one of the largest defense prime contractors.

We also won our first manufacturing award from a defense customer where we have maintained a longstanding engineering solutions engagement. This program will be built in our Neenah, Wisconsin facility.

Finally, engineering solutions wins for the aerospace and defense sector hit a record high in fiscal 2024, reflecting continued progress and diversifying our opportunities to generate growth. Our fiscal 2025 aerospace and defense market sector outlook continues to be bullish, supported by new program ramp strength in our defense subsector, and our expectation that uncertainty in the commercial aerospace subsector will resolve as the year progresses.

Please advance to Slide 9. Revenue in our Healthcare/Life Sciences sector was up 9% sequentially for the fiscal third quarter on the strength of inside the quarter demand increases and a pooling of demand for a new product launch. This beat our expectations of a mid-single digit increase.

Fiscal 2024 for our Healthcare/Life Sciences sector saw a 17% revenue decline as a result of inventory corrections and demand softness, as well as the discussed headwind from the normalization of previously procuring components at above market prices. For the fiscal first quarter, we expect the Healthcare/Life Sciences sector to decline high single-digits, reflecting some continued inventory corrections and the pooling of activity into the fiscal fourth quarter. This dynamic is more than offsetting continued momentum from our engineering solutions.

Healthcare/Life Sciences sector wins for the fiscal fourth quarter marked the second consecutive quarter of strong performance at \$148 million. Wins included 2 significant awards from an existing customer for our Neenah, Wisconsin manufacturing facility. One of these awards represents new outsourcing work and reflects on the depth of our experience in the subsector, the strength of our historical execution from our ongoing sustaining services engagement, and our ability to contribute world class engineering, commercialization and development resources in support of customer success.

We also won the production of a therapeutic device for an existing customer based on a historical execution in support of their new product launches. This product will be produced in our Chicago, Illinois facility.

The aggregate wins for the Healthcare/Life Sciences sector for fiscal 2024 reflect a record high, and a remarkable 69% year-over-year increase. As we look to our fiscal 2025, we remain optimistic for a return to growth for the Healthcare/Life Sciences sector, benefiting from the ongoing strength and program ramps, modest end market improvements, and normalization of inventories.

Advancing to the industrial sector on Slide 10, revenue increased 12% sequentially in the fiscal fourth quarter. The result was above our expectation of a high single-digit increase and primarily driven by inside the quarter demand increases from customers in our SemiCap and energy subsectors.

Fiscal 2024 saw a 3% revenue decline for the industrial sector, a strength in new program ramps, and the beginnings of a SemiCap subsector recovery were more than offset by generally soft demand in various subsectors working through an inventory correction.

Looking ahead to the fiscal first quarter, continued demand improvement in SemiCap is being more than offset by some industrial subsectors continuing to work through demand instability, the revenue upside experienced in the fiscal fourth quarter, and near-term program volatility with 2 customers. As a result, we expect revenue to decline mid-single digits in the industrial sector for the fiscal first quarter.

Industrial market sector wins for the fiscal fourth quarter of \$37 million included a next generation product win with an existing test and measurement customer. Our wins also included share gains on 2 platforms for an existing SemiCap customer. These products will be built in our Penang, Malaysia campus.

We are also pleased to note that an existing customer with a leadership position in the energy subsector has audited our Boise, the Idaho facility and confirmed that Plexus quality system is compliant to NQA-1. This is ASME's Nuclear Quality Assurance standard for firms providing services in support of nuclear energy. Compliance to this standard expands our differentiation, enabling continued revenue growth.

Our expectation for the industrial sector of a return to growth in fiscal 2025 remains unchanged. Our view is the general subsector instability will resolve as the year progresses, with market outgrowth and SemiCap offsetting industrial subsector market weakness.

Advancing to Slide 11, we can review the regional highlights of the manufacturing wins for the fiscal fourth quarter.

The America's wins were exceptionally strong at \$195 million. This marks the second consecutive quarter of strong regional wins performance. Wins included a share gain award for our Neenah, Wisconsin facility from an existing customer in our space subsector that is seeing increasing product market acceptance.

This win reflects the strength of our collaborative relationship in support of helping launch their product into the market. The APAC region's fiscal fourth quarter wins of \$30 million included new programs with

2 of our existing SemiCap customers. These assemblies will be built in our Penang, Malaysia campus. The awards are a result of our continued strong execution.

The aggregate fiscal 2024 wins for the APAC region increased 46% over the prior fiscal year. The EMEA region's fiscal fourth quarter wins of \$5 million included a new program award from an existing SemiCap customer. This award for our team in Scotland reflects continued share gain for Plexus as our customer executes to the strategic supplier road map.

Please advance to Slide 12 for a review of our funnel of qualified manufacturing opportunities. The funnel of qualified manufacturing opportunities remains robust at \$3.5 billion, with a sequential decline reflective of the robust harvesting activity by our team and typical funnel management.

In summary, the strength of wins in fiscal 2024, the continued progress of new program ramps, and the normalization of subsectors currently experiencing either uncertainty or inventory corrections, gives us optimism for growth in fiscal 2025.

I will now turn the call over to Pat for an in-depth review of our financial performance. Pat?

Patrick John Jermain
Executive VP & CFO

Thank you, Oliver, and good morning, everyone. Our fiscal fourth quarter results are summarized on Slide 13. Gross margin of 10.3% exceeded our guidance and was sequentially higher by 50 basis points. We recognize significant fixed cost leverage as revenue sequentially increased 9%, while fixed manufacturing expenses decreased slightly from last quarter. Efficiency gains and productivity improvements across all 3 of our manufacturing regions led to the better than anticipated results.

Selling and administrative expense of \$54 million was above our guidance primarily due to additional incentive compensation expense linked to improved operating and cash flow performance. Non-GAAP operating margin of 6.2% exceeded our guidance due to the strong gross margin performance and delivered on our target margin 1 year earlier than expected.

Non-operating expense of \$8.4 million met expectations. While we experienced a substantial reduction in interest expense due to our robust cash flow performance, we did see higher levels of foreign exchange losses this quarter. Non-GAAP diluted EPS of \$1.85 exceeded the top end of our guidance due to the factors mentioned along with a benefit from a favorable tax rate.

Turning to our cash flow and balance sheet on Slide 14. We were extremely pleased with our free cash flow performance as we wrapped up the fiscal year. We delivered \$220 million in cash from operations and spent \$26 million on capital expenditures, resulting in free cash flow of \$194 million. This result was well above our expectations. As Todd mentioned, this was the highest performance in company history.

For fiscal 2024, we generated record free cash flow of \$341 million, an outcome representing more than double our previous record and 3x our fiscal 2024 net income. With the strong performance, we reduced our total debt during the quarter by \$102 million while continuing to support our share repurchase program.

For fiscal 2024, we reduced our total debt by \$184 million. During the quarter, we purchased approximately 166,000 shares of our stock for \$19.5 million, which completed the previously authorized \$50 million share repurchase program. For fiscal 2024, we purchased \$55.7 million of our stock at an average price slightly below \$104 per share.

We have now begun purchasing shares under the new \$50 million program authorized during the fiscal fourth quarter. We ended the year in a net cash position. Cash of approximately \$347 million was sequentially higher by \$78 million. At the end of the fiscal year, we had \$50 million outstanding under our revolving credit facility with \$450 million available to borrow under the facility. Our gross debt-to-EBITDA ratio was at a conservative level of less than 1.

For the fiscal year, we delivered return on invested capital of 11.8%, which was 360 basis points above our weighted average cost of capital. Cash cycle at the end of the fiscal year was 64 days, 16 days

favorable to expectations and sequentially improved by 19 days. This level of cash cycle was the best result delivered in the past 4 years.

Please turn to Slide 15 for details on this exceptional performance. Our cash cycle improvement primarily came from a combination of lower accounts receivable and inventory days. Sequentially, days in receivables improved by 7 days, led by fiscal year-end collection efforts.

Increased revenue and continued progress on our working capital initiatives contributed to a sizable inventory reduction of 24 days. Our teams delivered a sequential reduction in gross inventory of \$123 million and a reduction of over \$250 million when compared to the fiscal 2023 year-end balance. As Todd has already provided the revenue and EPS guidance for the fiscal first quarter, I'll review some additional details, which are summarized on Slide 16.

Fiscal first quarter gross margin is expected to be in the range of 10.1% to 10.4%. At the midpoint, gross margin would be similar to the fiscal fourth quarter. We expect selling and administrative expense in the range of \$46.6 million to \$47.6 million, which is inclusive of approximately \$4.6 million of stock-based compensation expense.

Fiscal first quarter non-GAAP operating margin is expected to be in the range of 5.7% to 6.1%, exclusive of stock-based compensation expense and any restructuring activity. Nonoperating expense is anticipated to be approximately \$6 million. This would represent a sequential improvement as we continue to deploy excess cash to reduce our borrowing and related interest expense.

For the fiscal first quarter, we are estimating an effective tax rate between 14% and 16% and diluted shares outstanding of approximately 27.7 million. Our expectation for the balance sheet is that working capital investments will increase compared to the fiscal fourth quarter. Based on our revenue forecast, we expect this level of working capital will result in cash cycle days in the range of 71 to 75 days. This would be sequentially higher by 9 days, primarily due to the return of advanced payments linked to our continuing inventory reduction efforts.

With higher investments to support anticipated revenue growth for fiscal 2025, we expect the usage of cash for the fiscal first quarter, a trend we have experienced the last several quarters. Despite this usage, we expect to follow up the fiscal 2024 result with robust free cash flow in the range of \$50 million to \$100 million for fiscal 2025. We plan to continue to deploy any excess cash to create additional shareholder value.

One additional comment on the full year. We expect capital spending in the range of \$120 million to \$150 million, which is inclusive of approximately \$60 million related to footprint expansion on the mainland of Penang, Malaysia. We continue to see significant growth opportunities in this region and are investing to ensure we support broad-based customer interest in our services within the region. With that, Bailey, let's now open the call for questions.

Question and Answer

Operator

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

David Neil Williams

The Benchmark Company, LLC, Research Division

Congrats on the really solid results here.

Todd P. Kelsey

President, CEO & Director

Thanks, David.

David Neil Williams

The Benchmark Company, LLC, Research Division

So I guess the first question for me is really around the aerospace and defense, and you talked a bit about this in your script. But just kind of curious how you're thinking about that for the year? Obviously, Boeing without the contract being renewed or resolved as we had hoped and maybe some of the conversation yesterday from their print just about the timing of that production coming back. How are you thinking about that? And maybe how do you avoid the risk that could be associated with that as we think about the full year in aerospace and defense?

Todd P. Kelsey

President, CEO & Director

Yes, I'll start and maybe Oliver will want to add as we go through the discussion here. But certainly disappointing that the Boeing strike wasn't resolved yesterday as I think a lot of people were anticipating. But one of the things in our projections or as we went through our preparation for the call, we have been conservative in the way we've looked at Boeing. So when we talk about strong growth anticipated in aerospace and defense, that takes a relatively conservative look at how the Boeing situation plays out.

So I think if we get some resolution in that, that could provide some potential upside opportunity for us. We think at this point, we're reasonably de-risked for what the situation is today. So with that said, when we think about the aerospace and defense sector for fiscal '25, looks like another strong growth year, not at the 21% level of '24, but certainly has the potential to be into the double-digits. And a lot of that is driven through strength in new program ramps within our defense subsector.

David Neil Williams

The Benchmark Company, LLC, Research Division

Okay. Very good. Great color there. I certainly appreciate it. And then maybe secondly here is just on the SemiCap equipment space. There's been a lot of, I think, variable discussion around the demand trends there, some up, some down. It sounds like you've got several new program wins this quarter, and it's been an area of opportunity for you. So maybe just, as you think about the SemiCap equipment space, is there anything that you're concerned with? And how do you view that generally? Have you de-risked that, do you think, for the trends? And just, I guess, maybe anything that goes into that estimation of demand for the year on SemiCap?

Todd P. Kelsey

President, CEO & Director

Yes. I think in general, we're at a relatively conservative look at SemiCap as well too. Now we would expect to -- and as I mentioned in the prepared remarks, we'd expect to outgrow the market and outgrow market forecast because of share gains. So I think you can take any projections that you see out there

for WFE or SemiCap in general and expect that we're going to outperform that, as we have for the past decade or so. So I think that's the way to think about SemiCap.

So we would expect it to be well into the double-digits from a growth here this year, even taking a conservative view.

Operator

Your next question comes from the line of Melissa Fairbanks with Raymond James & Associates.

Melissa Ann Dailey Fairbanks

Raymond James & Associates, Inc., Research Division

I'll echo the congrats on the great quarter. I've got one for Oliver. Wondering if we could dig into the non-SemiCap business in industrial? On the last call, you had guided to some recovery in the broadband communications sector. It had been pretty weak for quite some time. Just wondering if you could give us an update on that business and what the expectations are going forward?

Oliver K. Mihm

Executive VP & COO

Yes. Happy to answer that. Yes, our outlook for communications and what we build in here is a much more flat look. Certainly, recognize the macro tailwinds that exist, and we talked about that in prior quarter. Certainly, our growth is tied to certain projects coming to fruition, but we also recognize that those projects and the path to fruition is not always linear.

Melissa Ann Dailey Fairbanks

Raymond James & Associates, Inc., Research Division

No kidding. A lot of experience with that over the years. So for my follow-up, maybe for Pat, on the cash cycle outlook, obviously, really great reduction in 4Q. I know it's been a focus of the whole team. You've guided to the bump higher in 1Q. Can you remind us what the longer-term target is? How should we view peak to trough levels of investment? What the cash cycle days look like, especially with that \$50 million to \$100 million free cash flow target for the year?

Patrick John Jermain

Executive VP & CFO

Yes. Sure can. I mean going back to the first quarter of fiscal '24, we were at 95 days. So to have a midpoint now for Q1 to '25 of 73 days, a 22-day improvement, really pleased with. And to go to your question of 1 year ago, what we have been pleased with, we were kind of signaling mid-70s for cash cycle as a target. And obviously, hitting 64 at the end of this year kind of resets our expectations.

So as I look to '25, Melissa, yes, 73 days in Q1. We'll see an investment of cash in Q1. And just to correct maybe something I said in the script, that's something we have typically seen every first quarter in the last several years -- not several quarters, last several years, we've seen an investment of cash in the fiscal first quarter.

I expect us to continue our inventory improvement efforts going through fiscal '25. We will see some return of advanced payments along with that inventory reduction. So my expectation is 73 will be a high point for Q1 for '25, and then we'll start to steadily bring that down. Expectation would be to get back into the 60s. Whether we get back to the 64 level, we'll see, but it has kind of reset my expectations that I'd like to see it as more in the high 60s.

Melissa Ann Dailey Fairbanks

Raymond James & Associates, Inc., Research Division

Wow, that's fantastic. That's great. Maybe if I could just squeak in one quick follow-up. You did mention the return of advanced payments. Are your customers -- now that we're in kind of like a more normalized supply environment, are your customers still eager to give you some of those advanced payments? So

like if we see inventory going up, do you expect that to still be a balance of some customer commitments along with your own working capital investment?

Patrick John Jermain

Executive VP & CFO

Yes. I think where we see those typically is when inventory starts to age and get to a point of excess and obsolete is where we're pursuing those type of advanced payments. So I think that can still happen. But obviously, with supply chain improving, we're seeing less of that excess inventory.

Melissa Ann Dailey Fairbanks

Raymond James & Associates, Inc., Research Division

Okay. Great.

Operator

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

Christopher Grenga

Needham & Company, LLC, Research Division

This is Chris [Grenga] on for Jim. Congrats on the results.

Patrick John Jermain

Executive VP & CFO

Thanks, Chris.

Christopher Grenga

Needham & Company, LLC, Research Division

Is there any one thing that you could point to or that you could describe the pull-in during the quarter? You mentioned there's a broad -- I guess, broad pull-in and that drove the stronger-than-expected results. Is there anything in particular that you would call out as a driver of that?

Todd P. Kelsey

President, CEO & Director

Yes. The interesting thing was it impacted every sector. So we saw -- and there were different reasons for the pull-ins that we saw. Some were success of new program ramps. Others were demand -- just demand uptick that people saw with their end customers where they were looking for this. So we saw -- what we saw was quite broad-based to the tune of close to \$40 million. So one of the things -- I mean, we're certainly cognizant that our revenue is sequentially down in Q1, but I think that \$40 million impact, or near \$40 million impact is really what's causing that fact.

Christopher Grenga

Needham & Company, LLC, Research Division

Got it. And do you have a sense for how much longer the inventory imbalance or correction is expected to persist in health care, do you -- in conversations with customers, or do you have any visibility into how much longer you expect that dynamic to persist?

Oliver K. Mihm

Executive VP & COO

Yes, I'll take that. This is Oliver. Certainly, difficult to predict exactly when that's going to come out. I think last time -- last quarter, we already talked about the fact that, as we look at our portfolio as a whole, we thought that the inventory correction dynamic, we had worked through 85% to 90% of that.

I'll also note that we talked about engineering solutions revenue momentum here in this last quarter, and we view that as generally a good leading indicator of decision-making and outlook for that sector. And so, I think that gives us optimism here as we look to fiscal '25 for continued revenue growth.

Todd P. Kelsey

President, CEO & Director

Yes. A little additional color that I'd add here, Chris, is we're seeing the corrections flow through faster in healthcare than in Life Sciences overall, and there are a couple -- But within health care, there's a couple of one-off situations where the corrections are still fairly significant.

Operator

Your next question comes from the line of Steven Fox with Fox Advisors.

Steven Bryant Fox

Fox Advisors LLC

Just following up on the pull-ins that you mentioned. Can you draw any conclusions? I know you said it was broad-based, but is there any conclusions to draw from a macro standpoint? Or you just think it was all customers program specific? And along those lines, does it -- I understand why the pull-ins would sort of reduce your growth in FQ1. But what -- does it preclude you from growing, say, 10% for fiscal '25?

Todd P. Kelsey

President, CEO & Director

Yes. So maybe, Steve, I'll start by answering the '25 question, and then I'm going to pass it over to Oliver to provide some additional detail on the pull-ins. When we look at fiscal '25, I think with the, call it, slower start from a revenue standpoint, with the pull-ins impacting the comparable of '24 as well as the revenue in '25, I think double-digits looks difficult, I would say. We're projecting mid-singles maybe a little higher as we look to fiscal '25.

So we think we can make good progress, and we expect some pretty strong sequential revenue growth on a quarterly basis once we hit Q2 and move through the balance of the fiscal year.

Oliver K. Mihm

Executive VP & COO

Yes. And then adding on to that, I think as we reflect on the pull-ins, there were certainly a number of just customer-specific situations, Todd mentioned earlier, a specific program launch that had pulled in more aggressively from the customer.

Taking a step back and looking for some macro themes, we mentioned earlier in our remarks, space subsector showed strength -- showing strength in Q1. We also talked about the SemiCap subsector. So that grew sequentially in Q4 and continues to show underlying demand pickup. So that would be, I think, our other macro reflections on the overall trend.

And we look at all of that, and we think we're -- again, I'd say well-positioned would be the term that comes to mind as we contemplate the macro F '25 outlook.

Todd P. Kelsey

President, CEO & Director

And Shawn, one more thing -- I want to go back to the statement made about aerospace and defense. Just -- we added some conservatism in there as well. And so trying to adjust for the unknown related to the Boeing supply chain.

Steven Bryant Fox

Fox Advisors LLC

Got it. That's helpful. And then just curious on the program volatility you called out with 2 customers. Can you give us any further details on what that was about and whether that's an ongoing issue beyond the last quarter?

Oliver K. Mihm
Executive VP & COO

Yes. I'll just note that for both of those, they're one-off situations. We are working with our customer to help them resolve that dynamic. And I'll also note that from my perspective, the demand for both of those programs is not perishable.

Operator

Your next question comes from the line of Steve Barger with KeyBanc Capital Markets.

Unknown Analyst

This is Jacob [Moore] on for Steve Barger. My first question here is on operating margin, really accelerating achievement of that 6% target by a full year. I'm sure that there was some benefit from the pull forward in the quarter, but my question here is, what are the structural actions do you think that margin performance reflects the most? And really, how much more work is there to be done on those or other actions?

Oliver K. Mihm
Executive VP & COO

Yes, I'll start and then open up to my colleagues if they have any additional comments they want to add. This is Oliver. Certainly, we have a continued focus on manufacturing efficiency. I'll note that we hit that from 2 different angles, both in terms of profitability and capital equipment intensity. I'll also note that generally focusing on continued investments in automation would continue to help us there. By way of example, we deployed a significant warehouse automation project in our Penang campus in fiscal '24 and expect that to propagate more broadly through the organization, and we see both pick rate and efficiency improvements as well as space utilization improvements as a result of that.

And then lastly, I'll just say organizationally, we've aligned around a technology and innovation organization as well as driving both pieces of the innovation and the optimization and continuous improvement. And we think all of those things will continue to bear fruit as we drive margin enhancement or margin performance through the fiscal year.

Patrick John Jermain
Executive VP & CFO

Yes. And Jacob, as I look at kind of the quarterly performance we expect in fiscal '25, you're right. For Q1, I'm guiding a midpoint of 5.9%. So we are losing some fixed cost leverage on the lower revenue. The March quarter is burdened by merit increases. So we will see margins coming down at that point before we start improving margins on the back half of this year with productivity improvements Oliver pointed to.

But I think what this tells us is we can achieve the target of 5.2% -- I'm sorry, 6.2%, just may not be hitting that every quarter.

Unknown Analyst

That's helpful. So maybe just a follow-on to clarify there. Do you think you can hit 6% non-GAAP for the full year? And is there a threshold level of sales growth you need to get there?

Patrick John Jermain
Executive VP & CFO

I think the sequential revenue growth that we're going to see starting in the second quarter is going to benefit us. Whether we get to 6% for the full year, we'll see. It could be slightly below that. But exiting the fiscal '25 is what we want to be hitting that 6.2%.

Unknown Analyst

Got it. Okay. I got it there. And maybe a last one for me. This was -- actually my first question was on the sustainability of the past 2 months were free cash flow quarters, which you mostly addressed, I think it's going to come down some -- But maybe to expand a bit here, could you touch on near-term capital allocation priorities? And like what do you see as your highest return opportunities to use that cash going forward?

Todd P. Kelsey

President, CEO & Director

Yes. I think -- well, I think we've done a great job bringing down debt. So we've only got \$50 million outstanding under the revolving credit facility. So we do have a new share repurchase authorization of \$50 million that we're executing upon. And next month, we're going to be visiting with our Board about other opportunities to deploy the significant free cash flow we've generated over the last 2 quarters.

So from a priority standpoint, I'd say share repurchase program, maybe some further debt reduction. But again, as we get later in the year with growth, we will see some investment in working capital. And as I mentioned, we do have the footprint expansion in Malaysia.

Patrick John Jermain

Executive VP & CFO

Yes. I'd just add to that, too. I mean, when we think about capital allocation, obviously, one of the first things that comes to mind is supporting growth, and we're expecting a good growth year this year. So that's going to have an impact certainly on our free cash flow as -- compared to fiscal '24.

Operator

Your next question comes from the line of Matt Sheerin with Stifel.

Matthew John Sheerin

Stifel, Nicolaus & Company, Incorporated, Research Division

Just a follow-up on the last question regarding margins and particularly the strength you're seeing in gross margin. You're guiding gross margin down just a little bit on what, 6% or 7% sequential drop. And I'm just wondering if in addition to the things you talked about, factory automation, more efficient processes, are you also benefiting from mix? You talked about a higher percentage of engineering services, the defense/aerospace sector has been a higher percentage of revenue. So could you talk about maybe margin profile within the different segments and what's going to drive that as we go forward?

Todd P. Kelsey

President, CEO & Director

Yes, I can start, Matt. You're right. I mean, we're probably losing about 50 basis points of fixed cost leverage in the first quarter. We're covering that with higher contribution margin. Some of that's coming from mix of services and customer mix, along with, again, as Oliver touched on further automation and productivity improvements.

From a sector perspective, it's not much of a difference between the sectors. So I wouldn't say any additional weighting to a certain sector is necessarily driving better profitability. It almost comes to within customers.

Oliver K. Mihm

Executive VP & COO

And then I'll add on to that. In terms of mix, rather than hitting that from a sector's perspective, we expect our engineering solutions revenue to pick up as the fiscal year progresses, and that certainly hits a higher margin number than the rest of our operations.

Matthew John Sheerin

Stifel, Nicolaus & Company, Incorporated, Research Division

Could you remind us how big that business is?

Todd P. Kelsey

President, CEO & Director

It's greater than \$100 million is kind of the way we framed it. We don't get into a lot of specifics.

Matthew John Sheerin

Stifel, Nicolaus & Company, Incorporated, Research Division

But with very high margins relative to your business, right?

Todd P. Kelsey

President, CEO & Director

Yes.

Operator

Your next question comes from the line of Anja Soderstrom.

Todd P. Kelsey

President, CEO & Director

Anja? Just that you're really faint.

Anja Marie Theresa Soderstrom

Sidoti & Company, LLC

Okay. I'm sorry. So in terms of the Malaysia expansion, to what magnitude do you expect to -- are expanding it? And what kind of products do you support there? And when do you expect the expansion to be completed?

Todd P. Kelsey

President, CEO & Director

Yes. So we support all of our market sectors in Malaysia. We have a quite large campus there that currently consists of 5 different facilities. So this would be our sixth in the Malaysia area. When we think about the new facility, some of the growth we're targeting is around SemiCap and around Healthcare/Life Sciences in particular. But that's not -- again, within Malaysia, in our Penang campus, we support all of our sectors.

So regarding completion is -- Yes, we expect to be able to hit some first customer shipments late in the fiscal year.

Anja Marie Theresa Soderstrom

Sidoti & Company, LLC

Okay. And in terms of the nuclear energy compliance, what led you to get the -- to attain that? And what's involved in getting that? And what can we expect from you having that?

Todd P. Kelsey

President, CEO & Director

Yes. So that was driven by our customer. So we had an award that involved some products that's part of the nuclear energy supply chain. And so the customer came out and audited us to that standard.

Patrick John Jermain

Executive VP & CFO

It's a fairly rigorous standard that supports the -- again, the nuclear energy subsector. And we've already had additional customers that have an interest in the fact that we have this ability.

Operator

There are no further questions at this time. I will turn the call back over to Todd Kelsey, Plexus's President and Chief Executive Officer, for closing remarks.

Todd P. Kelsey

President, CEO & Director

Yes. Thank you, Bailey. I'd just like to summarize a bit of our call and the key themes of our call.

So first of all, I want to thank our shareholders, investors, analysts and our Plexus team members who joined the call this morning. We appreciate your support, as always. Reiterating the key themes of today's call, we're positioned for a solid fiscal 2025, creating additional shareholder value through delivering revenue growth, robust operating margin and sustained free cash flow generation.

As we look to fiscal 2025, we anticipate strong aerospace and defense revenue growth given robust end markets and new program ramps as well as moderate Healthcare/Life Sciences and industrial revenue growth, aided by share gains in new programs. We've displayed our ability to leverage our focus on increased operational efficiency by achieving our target non-GAAP operating margin goal of greater than 6% one year earlier than projected. This positions us to continue the strong operational performance of recent quarters in fiscal 2025.

Finally, we delivered record free cash flow in fiscal 2024, allowing us to reduce debt and generate additional shareholder value. The combination of these factors position Plexus to deliver strong EPS growth in fiscal 2025. Thank you again, and have a nice day.

Operator

This concludes today's conference call. You may now disconnect.

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