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Flex Ltd. (FLEX)

Investor and Analyst Day

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MANAGEMENT DISCUSSION SECTION

David A. Rubin
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Good afternoon and welcome to the 2022 Flex Virtual Investor Day. I'm David Rubin, Vice President of Investor Relations.

Before we start, I need to briefly run through a few housekeeping items. This event is live and being recorded. A replay and full deck with an appendix containing the detailed reconciliation between GAAP and non-GAAP financial measures you'll hear today will be posted on our Investor Relations section of our flex.com website.

Today's event includes forward-looking statements based on our current expectations and are subject to risks and uncertainties that could cause our actual results to differ materially. For more information on these risk factors, please refer to our most recent SEC filings. As you may have seen in our earlier press release today, we are reiterating our most recent fiscal Q4 and full year fiscal 2022 guidance we provided on our last earnings call on January 26. We'll provide our full results and details when we report fiscal Q4 earnings in early May.

Lastly, as we previously disclosed, with respect to our Nextracker business, our confidential S-1 related to the proposed initial public offering of its Class A common stock remains on file with the SEC. The IPO and its timing are subject to market and other conditions and the SEC's review process.

Moving on to this afternoon's agenda, our CEO, Revathi Advaithi, will provide an update on our strategy, our progress, and our plans for the next several years. Our Automotive, Health Solutions, and Agility Group leaders will also dive into some of the key drivers contributing to our next wave of growth. Next, our CFO, Paul Lundstrom, will present on our financial framework and our outlook. Lastly, we will have time for Q&A.

Please note that all questions need to be submitted through the chat function at the bottom of the event platform on your screen. You can submit questions any time during the event, and we will answer as many as we can as time allows.

With that, I'd like to turn it over to our CEO. Revathi?

[Technical Difficulty] (00:02:05-00:02:38)

Revathi Advaithi

Chief Executive Officer & Director, Flex Ltd.

There we go again. Okay. I'm going to start again. Good afternoon and thank you for joining us today. So before I start, I want to take a moment and express our support for our Ukrainian colleagues. Our employees' safety remains our number one priority. We are providing our Ukrainian employees and their families within and outside of Ukraine with the support and resources they need in this very difficult time. We have focused on humanitarian aid through the Flex Foundation and the amazing generosity of our Flex employees. At this time, our thoughts are with our Ukrainian colleagues, and we hope for a peaceful resolution soon.

Since our last Investor Day, we have made a lot of progress. So today we're going to talk about how we have transformed as a company, but we're going to spend most of the time looking forward and talking about how we are driving profitable growth. Of course, we'll also continue on our consistent margin expansion journey because our operating model supports it and it gets stronger every day. Lastly and most importantly, we are raising our targets with a new long-term financial framework.

Now let me start with a little bit on Flex. So you all know, we're one of the world's largest contract manufacturing and supply chain partners, and we serve a broad base of leading brands across diversified end markets, through a global footprint of manufacturing, design and service locations. The past few years, we have been on this transformation journey, and we have intentionally transformed our portfolio, and we've also accelerated our focus on markets, where we believe we have competitive advantages and used it for growth opportunities.

Now while our portfolio was certainly strong before, what we did was we exited some lower-margin businesses and some shorter-cycle businesses, and then that bolstered the foundation we stand on today. At the same time, we carefully align with targeted end markets and customers to drive the right kind of growth. And that provides better value for us and our customers.

So we have combined this focus with accelerating our emphasis on continuing to build world-class manufacturing capabilities that you know we have, but this has significantly improved our margins. It has also included better utilization of our existing CapEx, and deploying capital into next-generation automation and refining our footprint in a disciplined way.

But you know what, I think our secret sauce is the culture we have built. We have a high-performing work culture that's focused on driving collaboration and also accountability. But we have a relentless emphasis on being the most diverse and the most inclusive company.

Today we're a purpose-driven company, where all our colleagues are committed to the same set of values and the same ways of working. And this was powerful during the pandemic, where the mantra that we used every day was a value of do the right thing always. Now doing the right thing also means we care for our environment and the communities we work in. At Flex, we are on a journey to integrate sustainability in all aspects of our company. We're building on 20 years of experience that we already have. What we did was we introduced our most ambitious goal in 2021.

Our key areas of focus for our environmental agenda are, of course, achieving net zero greenhouse gas emission and then also generating zero waste for our major sites. And then on the social side, our priority is on the health, safety, and the well-being of our employees, and then what's important to me is improving representation of women in leadership position. All of our progress has been recognized by major reporting agencies, and now that's a great acknowledgment of our efforts.

Our work over the last few years has also led to a stronger and more robust portfolio. Whether you think of our regional presence or our diverse customer base, all of that has led to a more balanced business, also with our end market focus. We're a more disciplined company and a balanced company today.

What's important is that through all of this, we have delivered on our commitments. You remember just days after our first Analyst Day event, the world was engulfed by the pandemic that has shaped the last two years. However, our transformation has made it possible for not only for us to navigate these challenges, but then to deliver record results and keep all our commitments to our stakeholders.

In our core business, you know that we intentionally exited some lower value parts of our portfolio in fiscal year 2020, and that flowed through in 2021. And in the middle of the pandemic, we've put our new market-focused organizational model to work and won programs in high-growth, higher-value end markets. The quality of this work has helped us increase our bookings and convert that into strong growth in fiscal year 2022, which all of you know would have been even stronger without the supply chain issues.

We proved that the new operational models we developed and deployed, they could do two things; one, they could support the high-velocity, high-volume aspects of our Agility business, and it could support the more complex manufacturing capability of our Reliability segment. Now this new model, combined with all our productivity initiatives, expanded our adjusted operating margin by 120 basis points and enabled us to deliver our 20% EPS growth over the last couple of years. And we also generated consistent free cash flow conversion despite some very uncertain times.

So it is now clear that Flex is a stronger company, and we have established the right to win. Our customers are rewarding us because they know they can rely on us to solve their most complex manufacturing and supply chain issues. This track record of performance serves as the basis for our next phase of growth.

So, let's talk about how we intend to build on our strong performance and deliver sustainable and profitable growth. Talking about the macro trends, all of you know outsourcing growth is driven by increased complexity, whether it's in products, in markets, or all the sustainability requirements. So the EMS industry is around $600 billion, and we expect that's going to grow at a 5% to 7% CAGR through calendar 2025. But some research say that that rate of outsourcing growth will continue through calendar 2029.

Now everybody is talking about digitization. I'm preaching to the choir, but that's the megatrend that's driving whether it's products or whole industries to be smarter, data-driven, and more connected. And to make that next generation of products, companies have to integrate all these complex technologies and then build them at scale.

And then, of course, in addition to the pandemic, there's been tremendous global uncertainty. So let's talk about that for a second, whether you think about trade and tariff issues, all the geopolitical conflict, and all the severe labor shortages that we have today, they're all creating complexities. So companies have been forced to rethink their entire production strategies. And what we are seeing is a global rebalancing in sourcing and producing to maximize resiliency. And that's what we call as regionalization.

So a little bit on sustainability, now these days sustainability is not an afterthought, right? Businesses know that everybody is being held to a much higher standard for how and where their products are sourced and produced, and then also how they're disposed of. So these complexities are making it harder for companies to manage their own supply chain and manufacturing operations, so companies have to look to other partners, trusted partners who can help them navigate this complex environment. Only a few outsourcing players have the right capabilities and the right scale to meet these kinds of tremendous challenges, meet them effectively and profitably, and Flex is one of those partners.

We have a large-scale advanced manufacturing with a global and regional presence across 30 countries. Talking about the right capabilities to win, I think of four things that are critically important to our customers today. Now this comes with a combination of manufacturing excellence, supply chain, technology, and value-added services. All of that put together creates our right to win and enables us to be a trusted premium partner to the world's most leading brands.

So a little bit on each one, when you think about manufacturing excellence, Flex is definitely one of the best in the world. I was super excited when most recently, we were admitted into the World Economic Forum Global Lighthouse Network. And this achievement is a big testament to our Industry 4.0 capabilities, and that helps our customers design, build, and deliver at scale. And these absolutely advanced factories enable our customers to also produce products in regions that are close to their end customers, and they have to be done cost effectively with good quality and tremendous agility. Our manufacturing excellence helps them achieve that.

Now about supply chain, hot topic, everyone's talking about it. I like to think about digitized supply chain capability, and that's an absolutely competitive advantage today. Customers recognize this. So what do you have to do? You have to source. You may have to resource. You have to qualify. You may have to re-qualify. You have to react to disruptions with some amazing speed, and it's a must-have for customers, because they just don't have that kind of capability.

An example is how we support our customers' bill of materials strategy, whether it's proactively to identify a supplier part that could have risks during the production lifecycle, or suggesting replacement parts, second sourcing, or helping them even migrate new platforms, like new semiconductor platforms, even before they think they need it.

Now talking about technology, our key differentiator is also the technologies we have within our six businesses. And we take the unique advantage of this, because we are serving many different industries. What we can do is take technology innovation that happens in one business and move it to the other business, and help a customer who may not have that expertise in a whole different vertical.

An example that I like to talk about is what we gained in microdosing in our medical business, that was then taken to our lifestyle business for high-end beverage products. So think about that. I mean, very few companies can do that. Or when you think about how we take the advances in enterprise compute technologies as we design high-end computers, and then in our CEC business and then we take that and apply it to our Automotive business for the next-generation mobility. So that's on the technology side.

On the value-added services side, how we think about that is everything else, right, whether it's design and engineering, component services, rapid prototyping, could be logistics and fulfillment, or circular economy solutions and more. What these services help us do is really deepen our engagements with our customers, and then really move us up the value chain, whether it's to support growth or support profitability.

So I just talked about what gives Flex the right to win and why we're being rewarded by our customers. Let me focus on growth drivers across our portfolio. Our core portfolio has six different business units. They all have different secular trends that are driving demand for manufacturing and supply chain. And there are many of them, right? Everyone's talking about 5G adoption that supports infrastructure build-out, of course electrification, smart living, big macro trend, robotics, a significant trend across our businesses, renewables. So we're seeing lots of different growth patterns and sustained growth across the industries we serve because of these trends.

In each of these markets, we have the capability and the domain expertise to participate really successfully. But today, we don't have time to talk about all of these, because we had spent 16 hours having this call. So what we did was chose three areas that we're leveraging; in couple of them we're leveraging our cross-business expertise to accelerate our growth, and these are in high-growth markets, so electric vehicle ecosystem, the digital healthcare transformation, and what's happening with hypercloud expansion.

The requirements in these markets are driving a much higher growth opportunity for Flex. And I'm really excited that today, we have several of our business leaders here to walk you through these growth accelerators in much more detail. So you're going to hear several themes in these presentations. It's all focused on what will drive our growth. First is about our strong positioning in high-growth markets like next-generation mobility.

Mike Thoeny, who joined us couple of years ago, has been leading our Automotive business, and comes to us with almost 30 years of experience in the automotive industry. And he'll talk about next-generation mobility. Randy Clark, who recently joined us with more than two decades of experience in healthcare, he'll explore the second theme, which is how key trends are accelerating the move to outsourcing in these large underpenetrated markets in healthcare, and how our scale will enable this growth in the healthcare industry.

And then the third theme is about the growth we are driving with our established position in the cloud market, and then combining that with our critical power business coming from the Anord Mardix acquisition. Michael Hartung has two decades of experience in contract manufacturing, and is the President of our Agility segment, that as you know includes CEC, consumer device, and our lifestyle business units.

So to start off, I'll hand it over to Mike.

Mike Thoeny

President-Automotive Business Group, Flex Ltd.

Thanks, Revathi, and good afternoon, everyone. I'll start with a recap of mobility macro trends, Flex's cross-industry approach for the new electric mobility ecosystem, and details on how we win by driving above-market, long-term, and sustainable growth for Flex.

We are closely connected to the leading megatrends in mobility. We see that environmental sustainability is front of mind for companies and consumers, governments, regulating carbon emissions, and fuel economy, all converging to drive unprecedented growth in the number of electric vehicles, up 35% from 2021 to 2026. We see that drivers will demand five-star safety on their vehicles. And we see that cars of the future will be like a smartphone on wheels, keeping occupants connected, keeping the software powering their vehicles updated transparently, keeping access to new features in real time, and we see the business cases for autonomous fleets serving the mobility and delivery as a service markets driving strong growth.

Flex is a company uniquely positioned in the mobility market, not just components for vehicles, but a multi-segment product approach to address these macro trends, growing our addressable market, growing our revenue and profitability.

So let's focus on the electric mobility market and what this means for Flex. The strong growth of EVs means more than just on-vehicle content. This secular trend at Flex spans multiple business segments supporting the full electric mobility ecosystem. From the next-generation mobility electronic components on the vehicle that drive the electrified powertrain, to high-end on-vehicle computing solutions, improving EV size, weight, and power efficiency, to the EV chargers for residential and commercial, and to residential and grid energy storage systems powering these chargers and closing the loop, vehicle to infrastructure 5G connectivity, from car, to edge, to cloud, providing these connected services, and the advanced battery storage systems protecting these cloud servers.

We have a right to play in all of these areas based on our existing business, building on our core base markets, leveraging the synergies across these segments contributing to the growth of this electric mobility ecosystem, all expanding our total addressable market significantly. Let's take a further look on the next page.

So if we double click on the next-gen mobility portfolio content at Flex and the market opportunity, starting at the top left, we have our EV power electronics components supporting the electronics elements of the electrified powertrain, converters, onboard chargers, inverters, battery management systems. Moving right, we have the EV charging stations for both commercial and residential applications in our industrial business; high-performance advanced driver assistance systems, computing and sensors progressing to higher levels of autonomy that are an integral part of most global EV platforms.

And the same EVs also include the latest vehicle architecture, integrating the 100-plus electronics modules into a smaller number of up-integrated domain, zone, and central computers, reducing size, weight, and power requirements. The total addressable market of these next-gen mobility products are significant and well above market approaching $100 billion in 2024, especially strong growth in EV components. Altogether, this has opened up our total pipeline of opportunities. So let's take a look at what this means in terms of profitable growth for Flex.

The title says it all; our investment in next-gen mobility is driving significant above-market growth. From fiscal year 2022 to 2025, these products alone thrive at greater than 50% CAGR with increasing profitability, given our increasing level of design value-add, even while our legacy portfolio also continues to grow. And the results are impressive. We're driving higher Flex content per vehicle. We're designing our own products and co-designing with our customers, generating greater profit. We're growing our customer base globally, both traditional OEMs and new mobility customers, and we're driving greater regional diversification, increasing our access to more customers, more nameplates in every region. Let's quantify this outlook for growth on the next page.

Our next-gen mobility product investments are yielding strong results. Let's start with content per vehicle. It's an important metric for us showing our continued growth. At the top left, you can see this increase up to over $300 per vehicle, and it will continue to grow based on our pipeline of ongoing next-gen mobility engagements. The increase in nameplates to the right emphasizes the expanding access we have to global auto customers, both established global platforms for traditional OEMs, and up-and-coming future winners in the mobility space. And by the way, already 62 of these nameplates across 18 customers are EV.

We discussed our design capabilities. This is a real differentiator versus pure EMS companies. Of course, we can take our customers' designs and build them with our strong foundational manufacturing and supply chain capabilities as a leading EMS provider. But we also have our own designs, and can supply these as a full-service supplier, or we have many customers where we collaborate together to bring increasingly complex products fast to market as an ecosystem. This flexible business model enables a broad range of options for our customers, driving more opportunities for Flex, as this ecosystem complexity is good for us and it plays to our differentiated strengths.

A broad range of the right mobility products, access to more global customers and nameplates, investment in design, and our flexible business model has generated these wins. And looking forward, it has quadrupled the value of pipeline opportunities in Auto, for example.

Our strategy to invest and grow in next-gen mobility is working. And here are some proof points that we're proud of, showing how we are winning. First, we've had an outstanding booking year so far, with over $4.4 billion of total program revenue for Auto alone; half of this in next-gen mobility, which lends further confidence in our future trajectory.

Highlighting a few key programs, our Asia business is growing quickly, with customers like Great Wall Motors, as well as with EV startup NIO, who is quickly accelerating sales, while Inceptio is a leader in the growing segment of mass-produced autonomous trucks. We will launch several highly autonomous L4 compute programs in the next few years, powerful computers, automotive grade, for the new mobility and traditional OEM customers in North America and Europe. And we're excited to grow our EV power electronics business with leading Europe OEMs.

Overall, these products span EV, autonomous, mass-market ADAS across the spectrum of Flex-designed to co-developed products. We are winning across product lines, across regions, across a range of design engagements, and the industry is noticing. Let me share some examples with you on the next page.

Here are several examples where Flex-developed technology in EV and autonomous driving has won recognition in the US, Asia, and Europe. Flex had two finalists in the Automotive News PACE Awards for our smart power conversion DC/DC module, and our collaboration with Baidu on their Apollo autonomous Computing Unit. Automobile & Parts Magazine, a large China auto industry publication, awarded Flex an Innovative Technology Award for our [ph] MARS II (00:26:22) ADAS domain controller platform. CLEPA, the European Association of Automobile Suppliers – Automotive Suppliers, selected Flex as the winner of the Environment category for our 3rd gen DC/DC converter.

And we are building new collaborative ecosystem partners, for example, the NVIDIA announcement at CES this year about our partnership on their next-gen DRIVE Orin chipset, which will be the base of many ADAS and autonomous platforms, where we will have multiple ongoing customer engagements.

So pulling it all together on our last page, I've shared how our mobility ecosystem approach is aligned with the mobility macro trends, leading to an expansion of our next-gen mobility market potential to nearly $100 billion in calendar year 2024 across multiple Flex segments. And with the execution of our winning strategy, we expect Flex revenue in this secular trend to grow at nearly 50% CAGR from fiscal 2022 to 2025, double the rate of market expansion.

The mobility industry has been going through a significant transformation in the past few years, not just with the growth of electrified mobility, but also in the fundamental business models of how our customers develop and source products. No longer following a traditional sourcing pyramid, they are developing flexible ecosystems of supplier partners. Flex is uniquely positioned to accelerate and deliver above-market growth, and we are winning with the right cross-segment capabilities, the right global manufacturing and supply chain excellence, and the right product technologies.

Thanks for your attention. I'd like to hand it over to Randy Clark, President of Flex Health Solutions.

Randy Clark

President-Health Solutions, Flex Ltd.

Thank you, Mike, and good afternoon, everyone. It's a pleasure to speak on our Health Solutions business today. Advancing to my first slide on secular trends, Flex is well-positioned to take advantage of the macro trends in the healthcare market. These trends include: an aging population with an increasing prevalence of chronic diseases; shifting sites of care delivery, from hospitals to surgery centers, from surgery centers to clinics, and even further on to the home. There are continued cost pressures across the continuum of care, and data-driven healthcare coming in the form of aided diagnosis [ph] aren't (00:28:57) ways to create and capture value with the massive amounts of data being collected. These trends provide new opportunities and are accelerating new innovation within this space.

We are partnering with the top healthcare companies to advance these innovation cycles. This advancement is key for market growth, but also makes a tremendous impact on the patient. An example of this is with the diabetes monitoring devices. Think about what the patient, or even the patient's family had to do in the 1990s to manage the disease, versus the technology used today with continuous glucose monitoring, right? It's incredible. You can see the distinct evolution, the market growth, and the impact this has on patients going from hospital meters to BGMs or the fingerprint method, and onto more compact CGMs used today.

We are actively involved to drive similar evolutions in innovation. In diagnostics, dialysis and infusion markets, the care is moving from traditional hospital sites of care over to the clinic environment and even further on to the home setting.

In patient monitoring, there's a shift from large form factors to small connected wearable devices. In minimally invasive surgery, the innovation has already shifted from open procedures to laparoscopy, but now there's a shift from laparoscopy to lab robotics and even further segmented to endoluminal robotics. With our experience, proven track record, and the bundle of capabilities that we offer, Flex is positioned to help execute our customers' road map to these new technologies with greater speed and reduced risk.

We also see these macro trends across our focus markets. This is where we play: in medical equipment, pharma, and med device. These segments make up a large $140 billion addressable market between insourcing and outsourcing, with the outsourcing portion growing at a 6% CAGR. We have a strong right to win based on our industry expertise and the bundle of capabilities we offer these three segments. Here, you see that $140 billion market opportunity broken down between insourcing at OEMs and outsourcing, with 18% of the healthcare manufacturing space being outsourced today, and again, that 18% is growing at a 6% CAGR.

Flex is positioned to grow double the market by converting opportunities in both segments as current market conditions are favorable to Flex and are different from anything I've experienced in my 20-plus years in healthcare. This is providing an opportunity to penetrate, expand, and convert. The market conditions are pushing the 82% to redesign their operating model. This gives us an opportunity to penetrate. Companies that have not traditionally outsourced are looking for new ways to mitigate current challenges to improve their corporate health, improve their speed to market, and to future-proof their designs.

Looking at the 18%, we have opportunities to further expand and convert. The companies that insourced with smaller contract manufacturers during the pandemic are looking to shift business to larger, more trusted partners. Our existing customer base has seen the value of working with Flex and is looking to expand to new services and incorporate new business units. We solve these complex challenges through the services that you see on the right. With vertical integration, from design to manufacturing, we can provide a lower cost structure versus OEM insourcing through our efficiencies and capabilities to truly vertically integrate. In addition to our supply chain resiliency, this is the core to what we do.

With global scale and regional reach, some companies are still seeking globalization. While the pandemic accelerated others towards regionalization, our existing global footprint, the footprint that we have today, allows us to customize solutions tailored to the customer strategy. With the circular economy, every company is interested, but are at different stages in their ESG journey. We have implementable solutions to deliver on their ESG initiatives. These range from providing CO2 reporting and analytics to designing new products or redesigning current products for circularity to operationalize the return of a used, single-use medical product for parts harvesting and recycling.

Lastly, with technology innovations and expertise, we have the best talent in the industry, this combined with our proven reproducible processes to help our customers accelerate time to market and hit milestone dates. So, bringing the outsourcing growth opportunities and our Flex solutions to life, I have the following case study to highlight from a top medtech company consisting of multiple business units. This illustrates the opportunity to increase the 18% of the outsourced market by reducing complexity and demonstrating consistent execution.

As you can see, in 2018, we penetrated and started working with one business unit at this OEM, providing one service that we put in two Flex sites to help produce one product. We were then able to capture additional share of wallet, expanding to two of their business units, providing three services in four Flex sites working on five products. And as we transition to the next fiscal year in FY 2023, we're now working with three of the customers' business units, offering four services in five Flex global sites, working on eight products, and we've increased revenue close to six times during this period of time. We expect to grow 12% to 14% over the next three years.

The macro trends, combined with the current environment, have compelled the medtech and pharma OEMs to look at different ways to capture value, mitigate supply chain risk, and manage their cost. This is fueling the growth opportunities in outsourcing to trusted, proven, best-in-class partners. Through our consistent demonstrated execution, we earn trust to become that best-in-class partner, leading to new opportunities to grow our share of wallet. This positions us to outpace the market and achieve double-digit growth in our space.

Thank you for the opportunity to speak today. I will now pass it over to Michael Hartung, President of our Agility Solutions segment.

Michael Hartung

President-Agility Solutions, Flex Ltd.

Thank you, Randy, and hello, everyone. My goal today is to clearly demonstrate how Flex is positioned to grow our cloud business about 20% per year for the next three years, almost doubling revenue over that timeframe. Over the course of this presentation, I'll reiterate some familiar macro trends driving growth in the overall cloud market, illustrate how the corresponding investment in the data center is keeping pace with this growth, and describe how Flex is uniquely positioned to capture an increasing share of this market.

Starting with the big picture, the overall cloud market is growing at a remarkable rate and there's plenty of room for further growth. Simply put, the digital transformation continues to accelerate and increases the rate at which users migrate to the cloud and the corresponding user spend for cloud-based services. The good news for us is this growing demand for cloud-based services requires the build-out of more data centers and the equipment that goes with it.

The equipment we focus on comes in two areas: critical power and IT infrastructure. Our Anord Mardix product business is part of our industrial business unit and it covers critical power solutions primarily for hyperscalers and colocation data centers, while our CEC service business covers the outsource design and production of custom IT-related products, primarily data center racks for hyperscalers.

As a quick reminder, CEC is our largest business unit and it's comprised of Communications, Enterprise, and Cloud markets. It's this combination of industrials, Anord Mardix business, and CEC's cloud business that creates cross-business synergy and access to an enormous market opportunity that's growing at double digits for the next three years.

Now, let's take a closer look at these two focus areas in the context of the data center. With the Anord Mardix acquisition, we provide a comprehensive and customized product portfolio to hyperscalers and colocation data centers for mission-critical power requirements. This portfolio covers power distribution units, switchgear, remote power panels and busways. These are all heavily engineered products that offer a combination of reliability, safety, and quality to ensure mission-critical services are always on and delivered on time every time to users.

The deployment of these products can take a traditional form by installing them directly into the data center or in the form of a modular power pod, essentially critical power equipment in a box where the products are built, integrated, and tested in-house before they're deployed to the data center. In fact, our experience suggests that our solution can reduce onsite testing and cabling time by up to 70%. So this critical power solution is ideal for switchgear applications and fast-track data center builds for quick deployment for remote locations or where buildings have limited space.

Now, we can also deploy these solutions more rapidly and on global scale by leveraging the established Flex footprint, systems, and manufacturing pedigree. It's clear the acquisition of Anord Mardix both adds to our portfolio and positions us for growth in the rapidly expanding critical power infrastructure market, truly a one plus one equals three scenario.

In addition to our product business for critical power, we also provide electronic manufacturing services to hyperscalers through our CEC business unit. This service consists of outsourced production of vertically integrated racks capable of withstanding the rigors and reliability requirements of the data center by leveraging our expertise in design, manufacturing, and testing complex compute, storage, and networking gear.

Now, let's stay in the data center, let's dig a little deeper into a customer example, in this case, the outsourced production of a data center rack for a hyperscaler. This case study illustrates the different components we manage and highlights how our solution creates multiple customer engagement points, all of which potentially lead to a vertically integrated rack manufactured by Flex.

On the one hand, some of our customers want us to start top-down by managing the integration and supply chain of the entire rack. In this case, we initially acquire all of the components you see in this animation and we focus our energy on solving the complexity around assembling, testing and fulfilling a completed rack directly to the data center. Over time, instead of buying these components, we vertically integrate them by internally manufacturing those components that were previously purchased.

On the other hand, we also have customers that prefer we start bottom-up by first fabricating the sheet metal rack and then expanding into the manufacturing of the components in advance of providing a fully integrated rack. This option to start top-down or bottom-up creates multiple engagement points into each opportunity, both of which end up as a vertically integrated rack manufactured and fulfilled directly to the data center by Flex.

So now that we defined the market opportunity, the question becomes how do we win. Based on feedback from customers to unlock this opportunity, suppliers must provide continuous and reliable delivery of products and services on a robust system with all-inclusive capabilities in multiple regions near the data centers and user base.

This expectation alone eliminates regional players and single service providers because it's not a one ingredient answer. In fact, it's just the opposite.

At Flex, we're addressing these customer expectations by providing multiple products and services, each with a distinct profit stream that are bundled together and curated into an end-to-end solution for each product over its entire lifecycle. It starts with design services grounded on technology that's been customized for cloud scale deployments and based on open standards. It includes the foundation of operational excellence for advanced manufacturing, built at Flex for the past 50 years and now optimized for the cloud to cover circular economy services, including the fulfillment of the finished product as well as the repair, refurbishment and recycling of the same product, creating a sustainable closed loop system and we offer these solutions at scale in every major theater of operation.

Now, if we step back, each one of these products or services creates value on their own. However, it's the combination of providing bundled products and services offered at scale globally that is truly our competitive advantage and the reason customers in the cloud market ultimately choose Flex. The result is we find ourselves in an enviable position to penetrate a massive and growing market because we are uniquely positioned to design, manufacture, and fulfill a broad portfolio of critical power and IT infrastructure products for the data center and provide an end-to-end bundled solution that creates differentiated value for our customers and multiple pools of profit for Flex. Given this differentiation, we expect to grow our cloud business about 20% per year for the next three years, almost doubling revenue over that timeframe.

Thank you and I'll turn it over again to Revathi.

Revathi Advaithi

Chief Executive Officer & Director, Flex Ltd.

Thank you, Mike, Randy, and Michael, all of you for providing additional insight into these macro trends we talked about and then really importantly how we are positioned to drive growth in these key areas.

So what does all this mean? We expect to see a 50% CAGR in mobility and the EV ecosystem. We expect to see a 14% growth rate in the digital healthcare space and then a 20% CAGR for the cloud expansion opportunity. And together, just these three market priorities alone represented a blended CAGR of 20% for Flex.

So what does all this mean for the future growth of Flex? We are expecting that the overall growth from our six business units to be at 7-plus percent. In all of these business, I talked about earlier that we have large available target markets where we have accelerated our bookings with the right type of growth and the right mix. And then you add to that the contribution from the three growth drivers we just talked in detail that grows at 20-plus percent growth and we get to a high single-digit growth commitment for Flex on top of our strong base. This supports our confidence in making a commitment of high single-digit growth for the company.

We talked about our growth commitment so let me talk a little bit about margins. Over the past two years, we have demonstrated that we have a track record of disciplined execution and margin improvement so we're confident that we can continue on our margin expansion journey. Now, that's driven by revenue growth we just outlined and then we are combining that with improving our mix.

We're also using automation and systems to drive productivity that I talked about earlier and then also capturing additional wallet share with the value-added services that I talked about. We expect all these actions to drive our adjusted operating margin to 5-plus percent or higher by fiscal year 2025. So only two years after putting out our long-term financial framework and goals, we are now ready to revise them upwards. What we can commit is still that high single-digit revenue growth, 5-plus percent adjusted operating margin, mid-teens EPS growth, and 80% free cash flow conversion.

I'll just make a short important point here and Paul will dig into this a little further in his presentation. But all these long-term targets that we're showing here is based on what we are calling core Flex excluding Nextracker. Nextracker, as all of you know, is well-positioned in the renewable power transition and has some amazing, strong, multi-year secular trends. And we also announced our partnership with TPG Rise Climate that only strengthens Nextracker's market position and value creation.

So as David said, we can address timing. We have already disclosed our intent for Nextracker that it's eventually is going to stand on its own, and we'll talk more about it in the future. But our focus today is about driving growth for Flex.

So I'm going to now ask Paul Lundstrom, our CFO, to take us through a deeper dive of our financial framework and after that, we're going to answer some questions, Paul?

Paul R. Lundstrom

Chief Financial Officer, Flex Ltd.

Okay. Great. Thanks, Revathi, and good afternoon, everyone. So you heard today some of our leadership team talk about a few of the secular trends that are driving growth in our end markets. We have executed on our transformation over the last few years and that has allowed us to increase our exposure to these critical end markets. The combination of that pivot, coupled with increasing tailwinds in the contract manufacturing sector, we believe, accelerates our growth over the next few years. That's an important theme and has positive implications on our financials. So we'll talk about that and our longer term framework for growth.

We have and will continue to judiciously fund that growth. Our capital allocation philosophy has been balanced and opportunistic. It's not our capital. It's shareholder capital and that's a responsibility that we take seriously with a mind's eye on long-term value creation. We're confident in our future. The pieces are in place and our plan is to execute just as you've seen us do over the last few years. So let's start with this, honoring commitments.

As Revathi mentioned before, we outlined our long-term financial targets at our last Investor Day in March of 2020 which was just days before all the pandemic lockdowns began. I think we all imagined a different path back then. But despite the unexpected challenges, as you can see, we've delivered on our commitments and our performance is proof positive that our strategy is working.

Our strategic initiatives have not only repositioned Flex, but have contributed to the profitable growth and the margin expansion we've delivered over the last few years. Operating results in 2022 will be excellent, with revenue up about 6% this year. And as you've heard us discuss before, that revenue is on a different mix of programs and customers. We strategically deemphasized a few in 2020 and 2021, and believe we now have a solid foundation on which we can grow.

Our operating model allows us to be nimble. We can ramp up and ramp down quickly. We're hyper-focused on our operational execution and you can see that in the results. Despite the challenges of COVID, shocks to the supply chain, inflation, operating profit dollars and margin rates have steadily improved. We'll likely finish 2022 with adjusted OP margins around 4.5%. That's up over 120 basis points since 2019. That has led to year-on-year-on-year high-quality earnings growth, with 2022 adjusted EPS up 20%.

We're going to spend the next few minutes talking about capital allocation and returns. It should be no surprise that with our strong margin improvements, the profit growth and our balance sheet discipline, you've seen nice improvements in ROIC. In terms of the capital allocation framework itself, our job is to be disciplined custodians of your capital and our focus is on delivering long-term value for shareholders. What you've seen over the last three years has been just that. We invest for value creation and growth by way of CapEx, balanced shareholder return of capital and opportunistic M&A. So let's peel the onion on that just a little bit, starting with CapEx.

So when Revathi first came to Flex, you heard a lot about optimizing our portfolio by shifting our mix and chasing the right kind of growth. CapEx investments are core to that strategy, and maximizing value and delivering profitable growth are highly important components of that. To that end, and as we've been transforming the business, we've repositioned our investments, including the absorption you see in 2020 and 2021.

Our focus is on programs and the strategic growth areas that we've outlined. Our focus is on margin accretive opportunities and of course, we'll continue our focus on investments in our core competencies. That means maintaining a leadership position in process technologies and ensuring that we continue to be the premier partner in outsource manufacturing, supply chain and logistics.

Our investments over the last few years have positioned us to capitalize on opportunities in growth markets with high confidence secular tailwinds. We've been investing to capture that growth and we'll continue to invest as we move through 2023. That means CapEx steps up from 2021 to 2022 and will step up again as we move into 2023.

Let me pivot and talk for a couple minutes about M&A. As we look at our capital allocation choices, M&A is certainly an option and I thought it would be helpful to give you some color into our insight and our framework on how we approach M&A opportunities. First and foremost, strategically a target needs to align with our core competencies. It needs to be synergistic to our portfolio. It needs to expand our capabilities. Long-term growth is critical. So our bias is towards those high value end markets with longer term secular growth tailwinds. You've heard us talk about three of those today and of course, financially there needs to be the opportunity to create significant shareholder value.

If you apply that framework to our Anord Mardix acquisition, here's what you get. We were already in the data center market, but with Anord Mardix, we're now able to capture a greater share of wallet with strong growth trajectory supported by those highly attractive secondary tailwinds that I mentioned. This transaction also enhances our portfolio of critical power products in our industrial business, enabling us to provide comprehensive solutions to hyperscalers and data centers. So we like the synergy there.

And financially, by leveraging all of our advanced manufacturing capabilities, our global supply chain network, we'll see benefits from sales and cost synergies. So consistent with our strategy, it's margin and accretive margin and EPS accretive as well. So Anord Mardix is on track to generate returns that are well above our cost of capital, so great strategic fit and a great financial fit for Flex.

I want to wrap up my M&A comments, though, by saying this. It takes a lot for the moons to align. Our thresholds are high. This is not going to be a roll up story. You're not going to see lots of deals in rapid succession particularly in this environment. And I would add that given the current Flex valuation, our priority is more Flex stock than on significant M&A, which is probably good transition to talk about shareholder returns so let's talk about that.

In terms of return of capital, we maintain an opportunistic but judicious approach to repurchasing stock, particularly when our view of the intrinsic value exceeds the market value. Lately we've been taking advantage of this opportunity which is reflective of our view that the stock today is significantly undervalued, particularly considering our multi-year outlook.

For fiscal 2022, we estimate repurchases will end up totaling close to $700 million, which is more than the last three years combined. Moving forward, we expect to remain active and opportunistic, balancing shareholder return with the desire and need to remain investment grade-rated. Heading in to our fiscal 2023, we'll have roughly $500 million remaining on our current $1 billion authorization.

Turning to our financial outlook for 2023, we expect total Flex revenue, this is Flex including Nextracker, to grow to about $27.8 billion, with adjusted operating margins growing to about 4.8%. We anticipate $2.16 in adjusted earnings per share. That's a year-over-year increase of 15%, with north of $550 million in adjusted free cash flow.

As we bridge from 2022 to 2023 earnings, our primary earnings driver will be drop-through from incremental growth and continued productivity improvements. With our above average buyback program in 2022, we'll see some tailwind from share count as well as we move through 2023. And in this environment, there are some headwinds in the supply chain, so we have a little bit of pressure on that and a little bit of pressure on the tax rate as well.

But I think overall, we're pretty well-calibrated at this point. So that's 2023 and again, that's including Nextracker. I would love to break them out and guide separately if I could, but that gets a little bit tricky in the short-term here. As you know, we do have a confidential S-1 on file, which is a perfect segue way to our longer term framework.

And as I transition to that, I just want to remind you that it is our intent to break Nextracker out as a third segment in our upcoming disclosures as another step towards the eventual separation. Ultimately, as Revathi had mentioned, that is our end goal. To that extent, when we think about Flex over the longer term, our goals and financial framework are based solely on core Flex, excluding Nextracker. So let me summarize some of those targets within our financial framework and how we think about creating value for shareholders over the next three years.

The team has touched on multiple drivers that position us to continue to accelerate growth. The output we're expecting is high single-digit revenue growth. As we've repositioned over the last couple of years, we have created a strong foundation to deliver profitable growth but the job isn't done. We'll be building on those efforts to unlock further value in our path to 5%-plus adjusted operating margins. We're confident that our strategic priorities, along with the strong momentum and our underlying growth drivers will enable us to deliver mid-teens growth in adjusted earnings per share.

And lastly, our long-term framework will continue to target 80% adjusted free cash flow conversion. So if you look at the right-hand side of the slide here, core Flex, again, that's Flex excluding Nextracker will grow from roughly $1.73 a share today to $2.65 a share in 2025. That's a 15% compound annual growth rate.

We're going to get into the Q&A in just a minute or two here. But I do want to recap some of the themes that we've covered here today. So, I'm just going to walk you from left to right across the slide, starting with operational excellence. Our transformed portfolio, our disciplined execution and our focus on high-growth markets reinforces our confidence in our growth and profitability trajectory.

On Flex capabilities, we're able to solve increasing complexity and create value for our customers with our advanced manufacturing capabilities, our supply chain resiliency across business synergies and our value-added services. From a macro perspective, our strategy is underpinned by our focus on high-growth markets driven by sustainable macro and secular trends, including EV and autonomous, digital health and cloud. In terms of what this means for growth, our competitive advantages have uniquely positioned us to capture accelerated growth in high-value markets and deliver profitable revenue with margin expansion.

I would now like to hand it over to Kyra Whitten. Kyra heads up Marketing, Communications, and Sustainability, and she's going to emcee us through the Q&A. Kyra.

QUESTION AND ANSWER SECTION

Kyra Whitten
Vice President-Corporate Marketing, Communications, and Sustainability, Flex Ltd.
A

Okay. Thank you, Paul. As a reminder, Q&A today will be through the event platform. You may submit your questions via the Q&A chat box at the lower right side of your screen. With that, we're going to get started.

So, our first question comes from Matt Sheerin from Stifel, question for Revathi. Regarding changes to the org chart and particularly the executive changes you've implemented since joining three years ago including most C-level and segment-level positions, how have these changes positioned the company from a leadership standpoint, and how have they influenced the forward direction of the company?

Revathi Advaithi
Chief Executive Officer & Director, Flex Ltd.
A

Thanks, Matt, for the question. I'd say what a transformation, right, in the company and, of course, on the talent itself. The way I like to think about talent is it has to be a great combination of experience that you already have in the business with new talents that adds to the strategy that really helps you get a competitive advantage on how you're moving forward.

So, that's kind of how we've rebuilt this team over the last three years. If you look at the C-suite itself, my team, whether it's Paul Lundstrom who came to us, I think, a year-and-a-half ago; we brought in Becky Sidelinger just recently had our Reliability business; Cameron Carr to head up our Strategy; a new head of HR; and then we have somebody like Michael Hartung, who heads Agility, where we need tremendous background and EMS experience, who really strengthens our team overall.

So, we've been very thoughtfully and intentionally building our talent. If you look at the business unit leaders below that I think both Randy and Mike here today are great examples of, in the Reliability segment we needed business leaders who really understood this space because it's a lot about technology migrations and you needed to have, the reputation to have that experience to really influence your customers.

So, I think intentionally building out the transformation of our talent just like our company and the way it influences is, I've always said this in the last few years, what we need EMS to do as a whole and Flex is to be consistent in how we think about growth and how we deliver our operating margins. So, the experience that this set of talent and leadership brings to Flex is our ability to deliver that, which I think is fantastic not just for Flex, but for the entire industry.

Kyra Whitten
Vice President-Corporate Marketing, Communications, and Sustainability, Flex Ltd.
A

Thank you, Revathi. Our next question comes from Mark Delaney from Goldman Sachs. Auto programs can be awarded several years before the start of production. How much of the FY 2025 targets, such as revenue per vehicle and number of nameplates is already booked? And also, how are the gross and EBITDA margins for next-gen mobility versus traditional auto programs, both currently and over time?

Revathi Advaithi
Chief Executive Officer & Director, Flex Ltd.

A

Okay. Mark, I would – I'm going to hand it over to Mike because I'm sure you'd love to hear from all these leaders here. So, Mike, it's all yours.

Mike Thoeny
President-Automotive Business Group, Flex Ltd.

A

All right. Thanks for the question, Mark. So, first of all, I'm happy to report that our level of bookings for 2025 fiscal year is actually quite high, not just in the Automotive segment, but also in the part of next-gen mobility that is part of our Industrial segment, the EV charging stations for residential and consumer applications.

And from a margin standpoint, we talked about our value-add being our flexible business model where we can be an EMS supplier of customer designs to co-development, co-design activity to full Flex design. And we're doing a lot of that type of work in the next-gen mobility segment. And because we're adding value, it's really the right kind of growth for us, as Revathi indicated, which means accretive margins, especially compared to some of our legacy business.

Revathi Advaithi
Chief Executive Officer & Director, Flex Ltd.

A

And then I'd just add to that, Mike, is I'd say, as you think about Flex as a whole for FY 2023 targets at least, and we have a pretty high bookings rate around 98%, that applies not just to Automotive, but across all segments, so feel very good in terms of how we're setting these targets.

Kyra Whitten
Vice President-Corporate Marketing, Communications, and Sustainability, Flex Ltd.

A

Thank you both. Our next question comes from Jim Suva from Citigroup. This strategy and insight seem positive and accretive to margins. However, for many who have followed Flex for years, there's been the hope of such efforts to materialize into high sustainable margins. So, what has changed that now it will occur? And in the past, what prevented this from occurring?

Revathi Advaithi
Chief Executive Officer & Director, Flex Ltd.

A

I'd say, Jim, first is – I'm sure Paul wants to jump in here after me. But I'd say most importantly is I will tell you that in the last three years, we have proven that you can really move margins in this industry if you made the right decisions, whether it's from a mix standpoint or a productivity standpoint. And what's really cool about it is I think the entire industry is transforming, right? You see the entire industry is starting to move its margins.

So, we really feel good about the ability of the industry and Flex to be able to improve its margins because of all this dysfunction that we talked about, right, whether it's supply chain resiliency or regionalization, or moving semiconductor platforms. Customers aren't able to deal with that complexity on its own, and they're able to give the value to EMS customers because it has become a much more complex world.

In terms of history, Jim, I'm not going to go a whole lot into history and why it didn't work and all that, but I would just say, our thesis has been that you have to be disciplined. You have to be disciplined in the kinds of growth you're going after because the TAMs are huge, the macros are in our favor, the secular drivers are strong. So, you have to go after the right kind of growth and then you have to execute to that right kind of growth. So, I think we should – we are very comfortable with the commitments we're giving, and all of you should be because our history has shown that we can do it.

Paul R. Lundstrom
Chief Financial Officer, Flex Ltd.

A

Yeah.

Revathi Advaithi
Chief Executive Officer & Director, Flex Ltd.

A

Okay.

Paul R. Lundstrom
Chief Financial Officer, Flex Ltd.

A

I agree with that. If I may, just one little comment it would just be, seems like the whole industry has become much more disciplined over the last few years. Just for haw-haws. I went back, and my predecessor left 25 years' worth of annual reports in my office. And you thumb through some of those things from the early 1990s, and it seems like generally in the industry, EMS companies were trying to be all things to all people. And I think what you've seen over the last couple of years, probably because of pressure from investors, a lot more discipline, a lot more focus on margins, improving margins, going at the right mix, going at the right business, and not really falling victim to that let's do all things for all people approach. Much more disciplined.

Kyra Whitten
Vice President-Corporate Marketing, Communications, and Sustainability, Flex Ltd.

A

Yeah. Thank you so much. Our next question comes from Steven Fox of Fox Investors. Can you discuss the vertical integration piece of the healthcare strategy in more detail? And what are the most important skills that create competitive advantages versus other EMS providers and drive outsourcing by OEMs?

Revathi Advaithi
Chief Executive Officer & Director, Flex Ltd.

A

Randy, this is all yours.

Randy Clark
President-Health Solutions, Flex Ltd.

A

Yeah. No, I appreciate the opportunity to answer Steven. Thank you for the question. First, I'll tackle kind of the vertical integration part of it. So, Flex has immense capabilities to go from complete design to manufacturing. I'm going to break both of those down just a little bit. So, from a design perspective, we could partner with an OEM in a number of different ways; from, again, design through to manufacturing, or we can do a specific design projects such as design for assembly, design for cost reductions, design for sustainability, and we're getting a lot of opportunities currently to design current products that may have a legacy component that's currently being gated by the supply chain challenges as well.

Shifting to the manufacturing part of the question or of vertical integration, I would say, medical and pharma manufacturing is complex and carries significant regulatory requirements. So, for those that can do complex manufacturing at scale, it's a very attractive sector, but again it is very complex and to do that at scale with multiple lines and semi-automated or automated, it is an attractive sector and that does require a complete skill set. Also, from a manufacturing perspective, again we can help a customer with just PCBA boards, subassemblies, full assemblies, tooling, molding. We can really create an ecosystem to meet their specific needs.

Revathi Advaithi
Chief Executive Officer & Director, Flex Ltd.
A

Good answer. Thanks, Randy.

Kyra Whitten
Vice President-Corporate Marketing, Communications, and Sustainability, Flex Ltd.
A

Thank you, Randy. Our next question comes from Paul Chung from JPMorgan. On the step-up in long-term revenue guide, can you talk about the dynamics between price increases, market share gains and how much is inorganic included in the forecast? And can you drive high-single-digit top line in FY 2023?

Revathi Advaithi
Chief Executive Officer & Director, Flex Ltd.
A

Yeah, I'll start and then Paul definitely jump in. I'd say, Paul Chung, my answer to this will be – is probably just very simple. One is, there is no assumption of inorganic growth in anything that we have given you. This is all organic growth. And I would say, you can see that in the spaces that we want to participate in, we're very focused on market share gains, and we're very comfortable that that is happening because on every major segment and business unit that we have, the customers that we have chosen to win with, you can see tremendous growth coming from that set of customers.

So, definite market share gains that we're seeing in the places we want to participate in. I would say, in terms of price increases and, of course, there's a lot of inflation that's going on through the system, we have a good partnership with our customers and understanding inflation and seeing what we offset and what they take on. So, I'd say a lot of focus on EMS as a whole, we think, is growing that we said. We definitely are taking market share in the areas that we want to target and grow in.

Remember, big TAM, so you don't want to grow everywhere, and really no inorganic forecast in what we're seeing. In terms of FY 2023, this year itself, right, we're going to grow 6% to 7% in what is a very challenged environment. So, FY 2020, 2021, we exited a large portion of our portfolio, refocused our business on good bookings, driven back that growth this year with 6% to 7%, could be much higher with supply chain issues. We feel very comfortable that FY 2023 and looking forward, we'll all be in the high-single digits.

Paul R. Lundstrom
Chief Financial Officer, Flex Ltd.
A

Yeah. I mean, we think generally that the EMS industry is going to be growing 5% to 7%. So if we're at the higher end of that, plus the tailwind from some of these secular tailwinds that we talked about in the prepared remarks, you can get to high-single digits pretty easily.

Kyra Whitten
Vice President-Corporate Marketing, Communications, and Sustainability, Flex Ltd.
A

Thank you both. Our next question comes from Ruplu Bhattacharya from Bank of America. The global supply chain is becoming more complex. As you've guided revenue growth of high-single digits year-over-year, what level of investment do you expect Flex will need to make in order to generate that growth? Specifically, what level of working capital do you think you will need as your mix shifts towards the longer lifecycle market? You talked about CapEx needing to go up again in FY 2023. Can you provide some details on some areas for that CapEx spend and what level of free cash flow should we expect over the next three years?

Revathi Advaithi
Chief Executive Officer & Director, Flex Ltd.

A

So, Ruplu, I'll just start off with a little bit, and I think Paul will answer most of this. I'd say, my focus will be to say, yes, in our projections we have given you, we have taken all the assumptions of investments that we need to make, whether that's in CapEx or whether that's in footprint or whether that's in technology or other resources. We've kind of had all that in our forecast as we look forward.

I'd say CapEx will grow because to invest in growth, you're going to need CapEx, right, and that's going to be important part of how we focus on moving the business forward. And that will be across all segments, whether it's Reliability or Agility, all segments will need supported CapEx for their growth programs. Last couple of years, we were absorbing CapEx that we had, so we're very efficient in use of CapEx, and our focus is on investing in growth as we move forward.

Paul, the rest of it is all yours.

Paul R. Lundstrom
Chief Financial Officer, Flex Ltd.

A

Okay. The only thing really to add would just be I think, Ruplu, you got a question there on working capital. Working capital is a little bit elevated here in our fiscal year 2022, no different than the entire industry. I think we've seen pressure on inventory from chip shortages and logistics challenges and all of that. And you'll see that continue as you move into our fiscal 2023. I think inventory wants to start coming down as some of these logistics challenges and chip shortages hopefully start to abate. But on the other hand, we are looking at high single-digit top line growth. So, we want to have a little bit of pressure on working capital.

Our commitment for 2023 is north of $550 million in free cash flow, which is a little below that 80% conversion ratio that we would like to see, but reflective of significant top line growth, some investments in CapEx, as Revathi just laid out, and a little bit of pressure on working capital. Long term, there's no reason why this business can't be back at that 80%-plus free cash flow conversion.

Kyra Whitten
Vice President-Corporate Marketing, Communications, and Sustainability, Flex Ltd.

A

Thank you. Our next question comes from Steven Fox of Fox Advisors. Can you discuss more details on new mobility as an ecosystem play for Flex? What are the important opportunities beyond thinking about just in-car opportunity? And what does that mean for fleet opportunities?

Revathi Advaithi
Chief Executive Officer & Director, Flex Ltd.

A

Yeah, definitely. Mike, do you want to start on that?

Mike Thoeny
President-Automotive Business Group, Flex Ltd.

A

Absolutely. Steven, great question. First of all, we talked about all the different types of cross-segment opportunities that we have. And in mobility, we clearly talked a lot about what's on the car, so I won't repeat that content, but the connectivity outside of this, beyond what's on wheels, the ability to have a business in the industrial group with EV chargers, both residential and commercial grade, but also thinking about connectivity on the vehicle. We talked about vehicle-to-vehicle infrastructure, 5G connectivity from edge to cloud, and that drives demand in our CEC segment. So, overall, there's a lot of different opportunities where we can interplay to drive and take advantage of this new mobility ecosystem. It's quite exciting for us.

Kyra Whitten
Vice President-Corporate Marketing, Communications, and Sustainability, Flex Ltd.

A

Thank you, Mike. Our next question comes from Matt Sheerin from Stifel. Of the three growth segments highlighted today, what do they represent as a percentage of sales? And can you break out auto, mobility, cloud, et cetera?

Revathi Advaithi
Chief Executive Officer & Director, Flex Ltd.

A

You want to take it?

Paul R. Lundstrom
Chief Financial Officer, Flex Ltd.

A

Sure. So, if you get off your micrometer, you will be able to figure out on the chart, I think, that it's about 15% of total. What we're not breaking out specific to those segments, Matt, is cloud affects multiple businesses within Flex. You have the CEC side, which is more the rack equipment that Michael Hartung spoke of. But then you have the power pieces in our industrial business with, in particular, with the acquisition of Anord Mardix.

Within automotive, I would say the same is true. We've got tailwind, of course, in Mike Thoeny's business, but we also have talent in the Industrial business because we do so much with renewables in that business unit, things like charging stations. Health Solutions is a little bit easier to hard peg. We're not doing Health Solutions in the other businesses, so Randy's P&L will stand out, and you'll see that disclosure as we file our K here, we'll give you some more BU sales disclosure as we did last year. But that's why it's not as easy to break out, Matt. It affects multiple pieces within the Flex business unit structure.

Revathi Advaithi
Chief Executive Officer & Director, Flex Ltd.

A

But, Matt, I think the way you should think about this is, like I said in the beginning, right, all the businesses have big growth drivers, right? There are many macros driving this. But for our examples today, that we wanted to share with you, we picked out these three because you can see very unique cross-business synergies that are happening in some of this, like cloud, for example, and then the mobility ecosystem, and then healthcare is just such a strong growth story for us. We just wanted to make sure we shared it. So, it's – we didn't want to do another presentation by six business unit and talk about individual growth drivers. Those cross-business synergies are super important, and that's why we presented it to you like that today.

Kyra Whitten
Vice President-Corporate Marketing, Communications, and Sustainability, Flex Ltd.

A

Thank you. A little bit of a related question from Mark Delaney from Goldman Sachs. Can you speak more on why you expect a 7% revenue CAGR in the core business? Flex spoke in depths on the drivers and some of the key areas that are 20% CAGR, but why was the core business, excluding those key growth sectors, grow at 7% CAGR? And what type of global GDP is needed for that?

Revathi Advaithi
Chief Executive Officer & Director, Flex Ltd.

A

See, Mark, what I would say is this, is first is we talked to you about EMS as a whole is going to grow 5% to 7%, right? So, strong secular drivers for EMS as a whole. Things like the complexity of regionalization and reshoring is so significant. There is not a customer that's not talking to us about, hey, how do I move my product? Where do I move it? When can I start this up? And so, you have seen – are just are – we can see that in our bookings.

We can see that in our programs, right? Randy talked about how many programs he has to ramp up in the next two to three years. It is just significant because these secular drivers are big, right? Look at what is happening, not just in terms of reshoring, but this whole supply chain confusion that is happening right now. So, making sure that you have what we call these right value-added services is also important.

So, we're just seeing many macro themes that are driving our bookings growth that then relates to how strongly we feel about the market growth itself for Flex. So, that's kind of how we have thought through about this. And this year, you saw, right, with all the craziness out there, we're able to grow 6% to 7%. So, we feel very comfortable with these growth commitments.

Kyra Whitten
Vice President-Corporate Marketing, Communications, and Sustainability, Flex Ltd.

A

Thank you. Our next question comes from Ruplu Bhattacharya from Bank of America. What gives you the most concern as you look out over the next three years? Over time, end markets are getting more outsourced. So, how much of the operating margin grows from 4.5% to 5% is expected from price increases versus mix shift to longer lifecycle end markets versus cost reduction?

Revathi Advaithi
Chief Executive Officer & Director, Flex Ltd.

A

Ruplu, I will start. And, Paul, I don't know if you want anything to add. When I talked about the margin expansion story, I said it comes from a little bit of everything, and that's what has happened in the last couple of years to us, right? So, we have enough experience to be able to say how this will play out moving forward. There is definitely what comes from growth and then the mix shift definitely helps in terms of margin expansion.

Our productivity leverage has been significant across our business, think about 120 basis points in the last few years, right? So, that comes from growth mix and from these productivity and efficiency that we have been driving. We do expect that there'll be some negative in terms of all the supply chain inefficiencies that are happening, whether it is shutdowns in China. And those kinds of things that are still going on across the whole globe is going to play into some supply chain efficiencies. And those are the ways we think about margin expansion.

So, I would say, yeah, there's going to be continued mix shift, which is important. In terms of price increases versus mix, I'm really not willing to break those out for you today, but I'll tell you that it comes from all of those three things that we just talked about. And we've been managing well in the last few years, and we've kind of used those same vectors to kind of forecast our future.

Kyra Whitten A
Vice President-Corporate Marketing, Communications, and Sustainability, Flex Ltd.

Thank you, Revathi. Our next question comes from Paul Chung of JPMorgan. Just on the CapEx priorities, where are you targeting your investment? Are there certain priorities on moving scale production capacity to North America? And what exciting automation software efficiency technologies are you investing in?

Revathi Advaithi A
Chief Executive Officer & Director, Flex Ltd.

Paul, we could talk about this for a long time. My favorite topic. I'd love to dig into this really in detail, but I'll give you a brief answer, then we can catch up later also. But I'll tell you that most of our CapEx investment is around growth. But the way you think about growth these days is not just about, hey, let me just buy a whole bunch of S&P machines or injection molding machines or things like that. The automation associated with that is as important because, obviously, labor shortages are huge.

So, you want to be really smart about how you're deploying the capital itself. And I would say, in terms of the regions, I showed you in that region chart how things have moved for us in the last few years, right, between Asia, Europe and North America. I can say that most of our investments today, our growth is going towards North America, but Europe is equally robust, I would say because there's a lot of consumers also moving end business to Europe. But North America is definitely high growth for us.

In terms of automation software efficiency, we're investing in everything, whether it's figuring out digital twins for our factories, whether it's MES system that's tied to kind of our factory production system, whether it's automation and warehousing or automation in our factory itself, all of those are being invested, and we have a very focused kind of digital lean effort over the next two or three years that's really going to drive productivity for us. So, that is also part of the investment. So, many areas, I'd say, across our factory that's driving the investment.

Kyra Whitten A
Vice President-Corporate Marketing, Communications, and Sustainability, Flex Ltd.

Thank you, Revathi. Our next question comes from an investor. High single-digit revenue growth, EBIT margin expansion, and teens EPS growth, 80% free cash flow conversion, improving ROIC greater than 20% in FY 2022, yet the stock trades at sub 10x FY 2022 EPS, excluding Nextracker of EPS of $1.73. Nextracker implied value of $3 billion, of which your 83% percent share is worth $5 a share. Clearly, the market doesn't believe in the durability of your growth in margins. What do you think the market's missing?

Revathi Advaithi A
Chief Executive Officer & Director, Flex Ltd.

Yeah. I'll start, and then Paul would love to comment on it. I'd say first is, I think you put the pieces together really well, right? I'd say Flex an investment story everybody should be buying. And one of the big reasons could be that people continue to look at old EMS, right, and the behaviors from the past. It could be that that takes a while for people to forget. So, they're looking for consistency of execution, not just in Flex, but the industry itself, which we're starting to see. So, I mean, that's the only thing I can say, right, that there's no other reason other than that.

If you look at our valuation, it is clear, and the long-term EPS guidance that Paul just gave today, it is clear that we should be much higher value than where we are today. And it's a buy opportunity because we're definitely undervalued, so...

Paul R. Lundstrom
Chief Financial Officer, Flex Ltd.

A

Yeah. And we've demonstrated our willingness to get into the markets and buy the stock. It's, like I said, $700 million, give or take, in 2022. So, maybe a camera too on the industry, and then happy to share you sort of what's in my head in terms of valuation. Just broadly in the EMS space, you go back to multiple administrations and in the trade wars. And so, that was a few years ago. And shortly thereafter, you have COVID. COVID created all sorts of traumas, as everyone is very well aware. In the middle of COVID, you start to have chip shortages. Chip shortages turn into oversea logistic issues, and you see both stacking up in Long Beach and every other port.

Now, we have not trade war. So, it seems like there's just more and more churn in the global manufacturing markets, and what that has done more than any time we've seen in a very, very long time is absolutely underscore the criticality of supply chain resilience. That's what Flex does for a living. That's what a number of our competitors do for a living. And if you talk to them, you talk to Flex, what you're going to hear is customer after customer after customer is rethinking their end-to-end supply chain. That's driving business for us, which is why Revathi talked earlier about 5% to 7% top line. Really don't see that going away anytime soon based on all the conversations that we've had with customers on a daily basis. So, I love the tail winds in the industry, and I'm surprised that investors haven't picked up on that and just frankly bid up the EMS industry overall.

More specific to Flex, I love the comment on Nextracker, you're spot on. TPG, which is very smart money. We spent a lot of time with TPG as they went through their diligence over the last several months, leading up to that transaction that we announced back in January. Very smart money, TPG. They put a peg on Nextracker at $3 billion. $3 billion divided by roughly 500 million shares outstanding, that gives me about $6 a share. So, we should be at $6 just for the Nextracker peg, plus if I look ahead to what we're guiding core Flex to be, which is $2.65 a share, so my simple math would be 10 times to 12 times earnings at $2.65 gives me 26- to 32-ish plus $6 a share for Nextracker, I see a path to mid-30s for the stock over the next couple of years. So, does it double? Maybe. Certainly, that would be my math.

Kyra Whitten
Vice President-Corporate Marketing, Communications, and Sustainability, Flex Ltd.

A

Thank you. Our next question comes from an investor. Can you quantify your exposure to Russia-Ukraine? And how is that factored into your FY 2023 guidance?

Revathi Advaithi
Chief Executive Officer & Director, Flex Ltd.

A

Yes. I'd say, I think I talked about it briefly before, is that, first is, Ukraine is in such a tough situation. It's hard to get your head around even talking about this without thinking about kind of all our people and the strong Ukrainian team that we have, who, by the way, have been amazing during such a difficult time, just still supporting and getting to work and wanting to do everything that's right.

So, I mean, it's just unbelievable how hard the situation is. We don't have a significant revenue exposure to Ukraine, right, so we're not hugely concerned about the revenue exposure itself, but we're more concerned about making sure our people are fine. And in our guidance, we've incorporated everything that we think could happen in Ukraine, but I'd say not a significant exposure, but focus really has to be our teams there.

Kyra Whitten
Vice President-Corporate Marketing, Communications, and Sustainability, Flex Ltd.

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Thank you, Revathi. Our next question comes from an investor. Congratulations on the continued success of your strategic turnaround. As you highlighted specifically during the healthcare portion of your presentation, Flex's future ability to support circular economy by receiving returning products to harvest for parts is very impressive. Do you anticipate working with partners in order to manage return inbound logistics or it seems infinitely more complex than outbound logistics? And do you plan to build this capability across other units?

Revathi Advaithi
Chief Executive Officer & Director, Flex Ltd.

A

Actually, Michael, you should answer this question because that whole business model reports into Michael, so...

Michael Hartung
President-Agility Solutions, Flex Ltd.

A

I'd be happy to. So, the good news is we have a large and growing circular economy business in the company today. And it's actually already operating at margins that are above the Flex average and it's a business that applies not just to one business unit, but frankly to all six business units. So, we're really excited at the prospects to continue that growth trajectory given we can grow along with the growth strategies at each of the six individual businesses.

In terms of what we do today, we really have two elements to that service, a forward and a reverse, that comprise the full circle. From a forward standpoint, we actually already provided complex fulfillment solutions, business-to-business, business-to-consumer, and in some cases straight to the home address of the buyer. On the other hand, we can take that same product and bring it back to Flex for repair, refurbishment or recycling. From a repair/refurbishment perspective, that product actually goes back in to the market through channels that are controlled by our customers, so we're actually in really good shape to grow that business with the services that we have, and we're looking forward to continuing to grow it in all the business units that we have.

Kyra Whitten
Vice President-Corporate Marketing, Communications, and Sustainability, Flex Ltd.

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Thank you, Michael. Our next question comes from an investor. I know you don't want to get into Nextracker, so I'll make it more general about the role of solar and the clean energy transition. And as you see any other growth sectors that are tied to solar. Some of Nextracker's peers have played with the idea of getting into the electrical balance of system or EBOS market as something that would nicely dovetail with solar trackers and could also have EV charging applications. So, I'm just curious, more broadly, if Flex could see itself playing a role in some of these other solar-related growth sectors going forward.

Revathi Advaithi
Chief Executive Officer & Director, Flex Ltd.

A

I'd say, I'm assuming you're talking about utility scale solar, right, because if you're talking about residential solar, we do inverters and storage and charging units and all of that, but I'm assuming you're just talking about utility-grade solar. I've seen utility-grade solar, I won't spend much time on this because we could talk about it for a long time.

But I'd say, trackers and inverters may be at some point that technology converges as lots of people playing around with it, including Nextracker is thinking about it. But in terms of electrical balance of system, complex space. And I've been in the electrical business, not easy to do. When people talk about it, I think it's just – it's not an easy thing to happen. But I'd say everybody look for consolidation in some way, so it's probably part of that equation. I'd say Nextracker is not thinking about that today, but we'll see how that plays out long term.

Kyra Whitten
Vice President-Corporate Marketing, Communications, and Sustainability, Flex Ltd.

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Thank you, Revathi. Our last question comes from an investor. You've talked about your transformation. What still needs to happen with the lessons of the pandemic and supply chain crisis? Are there additional changes that you need to make?

Revathi Advaithi
Chief Executive Officer & Director, Flex Ltd.

A

No. I'll say thank you for that question. First, to that, I'd say, yeah, the transformation over the last two, three years has been quite a journey, right? We've done a lot, gone through trades and tariff issues and pandemic and supply chain crises, and all of that took quite a transformation. But like I said, the transformation has happened and the results are seen.

They're seen in our growth this year, they're seen in our margins. And really they were also seen in the growth we're able to drive for the future because what's really important is that during this transformation, we build the best organization, whether it's the commercial organization or the operational organization, to really drive the right kind of growth and deliver that growth for this business.

So, I'd say transformation is done, fantastic team and talent that has been built into the organization. We feel very bullish about our plans because we have strong secular trends, and Flex has been really capable of executing. And so, I'd say, overall, it's a good, good story to think about, really focusing on our growth and delivering on our growth. We feel very strongly about it. I'm really excited to – that's why I gave you a new revised longer-term guidance. I think Flex is in a fantastic place today.

Kyra Whitten
Vice President-Corporate Marketing, Communications, and Sustainability, Flex Ltd.

Thank you, Revathi. Okay. Well, we're sorry. That is all the time we have for today. A replay of today's webcast and presentation materials will be available on our Investor Relations website shortly. Thank you all for joining us to learn more about Flex. And we look forward to speaking with you all again soon. Thank you.