

Tear Sheet:

Flex Ltd.

November 6, 2024

We expect the uncertain demand environment will pressure Flex Ltd.'s growth before revenues begin recovering in 2025. Flex recently lowered its revenue expectations for fiscal 2025 to \$24.9 billion-\$25.5 billion, down from \$25.4 billion-\$26.4 billion, given macroeconomic headwinds. This follows a 6% year-over-year total revenue decrease in the second quarter reflecting automotive and industrial weakness in its Reliability segment, which declined 11% year over year. Agility revenues were flat, helped by cloud and consumer recovery.

While we expect Flex's revenues to decline about 5.4% year over year in fiscal 2025 (excluding the impact of the Nextracker spinoff in fiscal 2024), good demand for its data center, power offerings, and project ramps will likely support improved profitability. We estimate Flex's adjusted EBITDA margin was about 7.1% for the trailing 12 months ended Sept. 27, 2024, which is above the historical operating range of 5.5%-6.5% over the past couple of years. We expect management's focus on higher-margin end markets and operating efficiencies will support steady EBITDA and credit metrics the next two years.

We expect Flex's good liquidity sources provide it with a good cushion to pursue share repurchases or tuck-in acquisitions without pressuring our 'BBB-' rating on the company. The company had a cash balance of \$2.6 billion as of Sept. 27, 2024, which we believe is above its minimum operating needs. We expect Flex will use some cash in the third quarter to fund its \$325 million all-cash acquisition of Crown Technical Systems. We expect the company will generate about \$835 million of annual free operating cash flow (FOCF) in fiscal 2025 given improved profitability and working capital reduction.

Its S&P Global Ratings-adjusted debt to EBITDA is low at about 1.4x as of Sept. 27, 2024, compared with our 3x downgrade trigger, allowing Flex to absorb earnings cyclicality and capital deployment. We expect its leverage will likely rise toward 2x as Flex uses excess cash for shareholder returns and acquisitions. We view the company's low and variable FOCF historically because high working capital needs and growth capital expenditure constrain the rating.

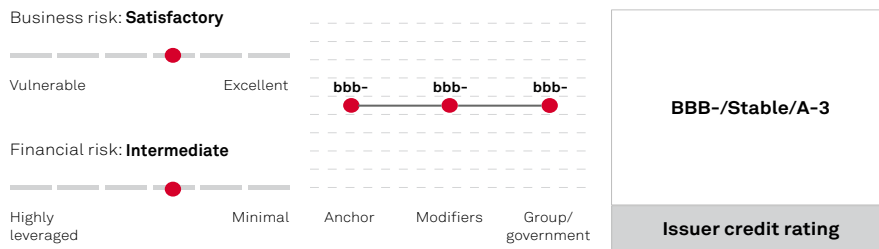
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Ratings Score Snapshot



Company Description

Flex is a global provider of outsourced advanced manufacturing services including design and engineering services to consumer, communications, data center, and networking manufacturers. The company owned and operated 46.7 million square feet of production capacity as of March 31, 2024, 19.7 million of which is in Asia.

Outlook

The stable outlook reflects our expectation for Flex to maintain low debt to EBITDA of about 1.5x-2x and generate annual FOCF of about \$835 million in fiscal 2025 despite demand weakness in areas like automotive and industrial end markets. Despite the headwinds, steady outsourcing demand and data center solutions will likely partially offset near-term revenue pressures.

Downside scenario

We could lower our rating on Flex if any of the following reduce profits and keep leverage above 3x:

- Loss of key customers;
- Higher operating costs from evolving global supply chain strategies; or
- A more aggressive financial policy.

Upside scenario

We could consider an upgrade if:

- We believe Flex will maintain S&P Global Ratings-adjusted leverage consistently below 2x while it pursues acquisition and shareholder return objectives; and
- The company sustainably grows free cash flow.

Key Metrics

Flex Ltd.--Forecast summary

Period ending	Mar-31-2021	Mar-31-2022	Mar-31-2023	Mar-31-2024	Mar-31-2025	Mar-31-2026	Mar-31-2027	Mar-31-2028
(Mil. \$)	2020a	2021a	2022a	2023a	2024e	2025f	2026f	2027f
Revenue	24,124	26,041	30,346	26,415	24,992	25,761	26,629	27,714
Gross profit	2,190	2,356	2,702	2,448	2,444	2,510	2,595	2,702
EBITDA	1,503	1,697	1,964	1,670	1,849	1,826	1,879	1,944
Funds from operations (FFO)	1,225	1,381	1,585	1,173	1,419	1,396	1,448	1,505
EBIT	869	1,054	1,226	925	1,033	996	1,032	1,078
Interest expense	176	191	259	235	230	230	230	240
Cash flow from operations (CFO)	1,270	755	873	1,465	1,474	1,349	1,182	1,283
Capital expenditure (capex)	351	443	635	530	400	515	533	554
Free operating cash flow (FOCF)	919	312	238	935	1,074	834	649	729
Discretionary cash flow (DCF)	736	(374)	(121)	(788)	(126)	(166)	(351)	(271)
Debt	2,050	3,020	1,979	2,213	2,329	2,634	3,124	3,534
Interest expense (reported)	150	166	231	207	202	202	203	212
Capex (reported)	351	443	635	530	400	515	533	554
Cash and short-term investments (reported)	2,637	2,964	3,294	2,474	2,273	1,968	1,500	1,500
Adjusted ratios								
Debt/EBITDA (x)	1.4	1.8	1.0	1.3	1.3	1.4	1.7	1.8
FFO/debt (%)	59.8	45.7	80.1	53.0	61.0	53.0	46.4	42.6
FFO cash interest coverage (x)	8.1	8.1	7.2	5.6	7.2	7.1	7.3	7.3
EBITDA interest coverage (x)	8.5	8.9	7.6	7.1	8.0	7.9	8.2	8.1
CFO/debt (%)	62.0	25.0	44.1	66.2	63.3	51.2	37.8	36.3
FOCF/debt (%)	44.8	10.3	12.0	42.3	46.1	31.7	20.8	20.6
DCF/debt (%)	35.9	(12.4)	(6.1)	(35.6)	(5.4)	(6.3)	(11.2)	(7.7)
Annual revenue growth (%)	(0.4)	7.9	16.5	(13.0)	(5.4)	3.1	3.4	4.1
Gross margin (%)	9.1	9.0	8.9	9.3	9.8	9.7	9.7	9.7
EBITDA margin (%)	6.2	6.5	6.5	6.3	7.4	7.1	7.1	7.0
Return on capital (%)	15.7	17.3	17.0	12.1	14.0	13.9	14.2	14.4
Return on total assets (%)	5.6	5.9	5.8	4.5	5.6	5.5	5.8	5.9
EBITDA/cash interest (x)	8.7	8.8	7.7	6.6	8.0	7.9	8.2	8.1
EBIT interest coverage (x)	4.9	5.5	4.7	3.9	4.5	4.3	4.5	4.5

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast. \$--U.S. dollar.

Financial Summary

Flex Ltd.--Financial Summary

Period ending	Mar-31-2019	Mar-31-2020	Mar-31-2021	Mar-31-2022	Mar-31-2023	Mar-31-2024
Reporting period	2018a	2019a	2020a	2021a	2022a	2023a
Display currency (mil.)	\$	\$	\$	\$	\$	\$

Flex Ltd.

Flex Ltd.--Financial Summary

Revenues	26,211	24,210	24,124	26,041	30,346	26,415
EBITDA	1,284	1,241	1,503	1,697	1,964	1,670
Funds from operations (FFO)	925	943	1,225	1,381	1,585	1,173
Interest expense	181	172	176	191	259	235
Cash interest paid	225	198	173	194	255	254
Operating cash flow (OCF)	804	1,269	1,270	755	873	1,465
Capital expenditure	726	462	351	443	635	530
Free operating cash flow (FOCF)	78	807	919	312	238	935
Discretionary cash flow (DCF)	(111)	547	736	(374)	(121)	(788)
Cash and short-term investments	1,697	1,923	2,637	2,964	3,294	2,474
Gross available cash	1,697	1,923	2,637	2,964	3,294	2,474
Debt	3,285	2,759	2,050	3,020	1,979	2,213
Common equity	2,972	2,831	3,436	3,707	5,706	5,325
Adjusted ratios						
EBITDA margin (%)	4.9	5.1	6.2	6.5	6.5	6.3
Return on capital (%)	7.4	5.4	15.7	17.3	17.0	12.1
EBITDA interest coverage (x)	7.1	7.2	8.5	8.9	7.6	7.1
FFO cash interest coverage (x)	5.1	5.8	8.1	8.1	7.2	5.6
Debt/EBITDA (x)	2.6	2.2	1.4	1.8	1.0	1.3
FFO/debt (%)	28.2	34.2	59.8	45.7	80.1	53.0
OCF/debt (%)	24.5	46.0	62.0	25.0	44.1	66.2
FOCF/debt (%)	2.4	29.3	44.8	10.3	12.0	42.3
DCF/debt (%)	(3.4)	19.8	35.9	(12.4)	(6.1)	(35.6)

Peer Comparison

Flex Ltd.--Peer Comparisons

	Flex Ltd.	Jabil Inc.	Sanmina Corp.	Hon Hai Precision Industry Co. Ltd.	Celestica Inc.
Foreign currency issuer credit rating	BBB-/Stable/A-3	BBB-/Stable/A-3	BB+/Stable/--	A-/Stable/--	BB/Stable/--
Local currency issuer credit rating	BBB-/Stable/A-3	BBB-/Stable/A-3	BB+/Stable/--	A-/Stable/--	BB/Stable/--
Period	Annual	Annual	Annual	Annual	Annual
Period ending	2024-03-31	2023-08-31	2023-09-30	2023-12-31	2023-12-31
Mil.	\$	\$	\$	\$	\$
Revenue	26,415	34,702	8,935	201,135	7,961
EBITDA	1,670	2,708	660	8,525	525
Funds from operations (FFO)	1,173	2,161	567	5,408	381
Interest	235	223	39	2,139	80
Cash interest paid	254	228	35	1,991	66
Operating cash flow (OCF)	1,465	1,912	300	15,306	364

Flex Ltd.--Peer Comparisons

Capital expenditure	530	708	191	3,647	125
Free operating cash flow (FOCF)	935	1,204	108	11,658	239
Discretionary cash flow (DCF)	(788)	636	1	9,024	121
Cash and short-term investments	2,474	1,829	668	44,259	370
Gross available cash	2,474	1,829	668	44,259	370
Debt	2,213	2,925	0	0	1,191
Equity	5,325	2,867	2,319	55,039	1,769
EBITDA margin (%)	6.3	7.8	7.4	4.2	6.6
Return on capital (%)	12.1	26.5	20.7	15.5	13.4
EBITDA interest coverage (x)	7.1	12.1	16.8	4.0	6.6
FFO cash interest coverage (x)	5.6	10.5	17.0	3.7	6.8
Debt/EBITDA (x)	1.3	1.1	0.0	0.0	2.3
FFO/debt (%)	53.0	73.9	NM	NM	32.0
OCF/debt (%)	66.2	65.4	NM	NM	30.6
FOCF/debt (%)	42.3	41.2	NM	NM	20.1
DCF/debt (%)	(35.6)	21.7	NM	NM	10.2

Issue Ratings--Subordination Risk Analysis

Capital structure

Flex's capital structure comprises mainly senior unsecured notes at the parent level. We view subsidiary-level debt as immaterial.

Analytical conclusions

We rate Flex's unsecured debt, including its Hungarian forint (HUF)-denominated bonds, 'BBB-', the same as issuer credit rating, because no significant elements of subordination risk are present in the capital structure. We believe subsidiary-level debt, including its Hungarian subsidiary debt and other priority claims, are sufficiently low.

Flextronics International Termelo es Szolgaltato Vamszabadteruleti Korlatolt Felelossegu Tarsasag's (Flex Ltd.'s wholly owned subsidiary) HUF100 billion fixed-rate senior unsecured bonds (ISIN HU0000360979) are rated 'BBB-'. The notes have a 10-year tenor (amortizing 10% annually in year 7, 8, and 9 with a final 70% bullet payment in 2031), and a 3.6% HUF annual fixed-rate coupon. The issue rating reflects the notes' unsecured senior ranking and the irrevocable and unconditional guarantee by Flex Ltd.

Rating Component Scores

Foreign currency issuer credit rating	BBB-/Stable/A-3
Local currency issuer credit rating	BBB-/Stable/A-3
Business risk	Satisfactory
Country risk	Intermediate
Industry risk	Moderately High
Competitive position	Satisfactory
Financial risk	Intermediate
Cash flow/leverage	Intermediate
Anchor	bbb-
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Strong (no impact)
Management and governance	Neutral (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	bbb-

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- ARCHIVE | Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- ARCHIVE | Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- ARCHIVE | General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

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