S&P Global
Ratings

Research

Research Update:

Flex Ltd. 'BBB-' Ratings Affirmed Following Announced Spin-Off; Outlook Stable

May 6, 2026

Rating Action Overview

- **Flex Ltd.** announced plans to spin off its fast-growing data center electronic manufacturing services (EMS) business.
- We expect Flex can sustain leverage below the 3x area even after spinning off this business and acquiring Electrical Power Products, Inc., an electrical power company.
- Therefore, we affirmed all of our ratings on Flex, including our 'BBB-' issuer credit rating.
- The stable outlook reflects our expectation that while leverage will be higher after the spin-off, Flex can grow in line with global GDP, maintain EBITDA margins, and sustain leverage below the 3x area.

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Rating Action Rationale

We expect Flex will sustain leverage below the 3x area over the next few years. Due to high capex spending tied to robust AI data center buildout, Flex rapidly grew its data center business over the past few years. This has driven good overall top-line growth and improved EBITDA margins, leading to leverage of mid-1x as of the third quarter of fiscal 2026 ended March. Flex's decision to spin off the business and acquire Electrical Power Products will increase its pro forma leverage, but we expect Flex can maintain leverage below 3x.

Even though the data center business is a higher-margin business that is growing faster than pro forma Flex, pro forma Flex is still a larger piece of its overall EBITDA generation. Its data center business will likely contribute about $6.6 billion of revenue at the end of fiscal 2026, leaving more than 70% of total revenue at pro forma Flex. While we expect S&P adjusted EBITDA margins to decrease, most of the EBITDA generation will remain at pro-forma Flex and the company will remain one of the largest EMS providers.

We anticipate the remaining business will exhibit global GDP-like growth and that EBITDA margins will remain stable allowing pro forma leverage to be maintained below the 3x area over the next

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few years. Additionally, Flex will retain a stake in the spun-off entity, which should provide financial flexibility to support the rating.

The pro forma business has a long track record of maintaining an investment grade rating even during macroeconomic and sector-specific volatility. Flex has held an investment grade rating for more than a decade.

It is also one of the two largest U.S. EMS players in the marketplace, with long relationships with most of its large customers. Due to prudent financial policies, its importance in customers' supply chains and its segment diversification, Flex has maintained leverage generally below 3x even amid macroeconomic and sector-specific volatility.

Furthermore, its data center EMS business did not become part of its large operating scale until a few years ago and we believe the company will continue to prudently operate its business as it has for years. While growth will slow down, we believe pro forma Flex can maintain GDP-level growth from healthy demand in its remaining health, automotive, communications, and industrial segments.

We also believe that EBITDA margins will not decrease to the levels before the higher-margin data center EMS business launched, as Flex has been focused on improving its profitability through cost-saving initiatives, streamlined manufacturing capabilities, and removal of lower-margin products.

Outlook

The stable outlook reflects our expectation that while leverage will be higher after the spin-off, Flex can grow in line with global GDP, maintain EBITDA margins, and sustain leverage below the 3x area.

Downside scenario

We could lower our rating on Flex if leverage is sustained above 3x. This could occur from:

- Elevated capex causing a large cash burn;
- Disruptions following the spin-off;
- 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 come to the conclusion that the company can execute on its acquisition and shareholder return objectives and sustain leverage below 2x. This could occur if:

- Monetization of its stake in the spin-off leads to debt paydown; or
- The company sustainably grows EBITDA and FOCF.

Company Description

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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 48 million square feet of production capacity as of March 31, 2025, 19 million of which is in Asia.

Our Base-Case Scenario

Assumptions

- Global real GDP grows 3.0% in 2026 and 3.1% in 2027;
- U.S. GDP grows 1.7% in 2026 and 1.6% in 2027;
- Global IT spending expands 5%-7% in 2026;
- Pro forma revenue grows in line with global GDP in fiscal 2026 and fiscal 2027, driven by steady demand in its remaining health care, industrial, and automotive segments;
- S&P Global Ratings-adjusted EBITDA margins decline slightly following the spin-off, but remain stable through fiscal 2027; and
- We do not assume additional acquisitions or shareholder returns.

Based on these assumptions, we arrive at S&P Global Ratings-adjusted leverage below the 3x area in fiscals 2026 and 2027.

Environmental, Social, And Governance

ESG credit factors have an overall neutral influence on our credit rating analysis of Flex. Due to its global manufacturing footprint, we view the company as more sensitive to greenhouse gas emission risks. We expect Flex will continue to manage emissions through its energy-efficient projects and use of solar power generation systems across its portfolio to supplement its power demand. We continue to view Flex's sustainability targets as in line with those of industry peers.

Issue Ratings--Subordination Risk Analysis

Capital structure

Flex's capital structure comprises mainly senior unsecured notes and term loans 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 ratings. This is 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 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

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reflects the notes' unsecured senior ranking and the irrevocable and unconditional guarantee by Flex Ltd.

Rating Component Scores

Component	
Foreign currency issuer credit rating	BBB-/Stable/A-3
Local currency issuer credit rating	BBB-/Stable/A-3
Business risk	Satisfactory
Country risk	Intermediate risk
Industry risk	Moderately high risk
Competitive position	Satisfactory
Financial risk	Intermediate
Cash flow/leverage	Intermediate
Anchor	bbb-
Modifiers	
Diversification/portfolio effect	Neutral/Undiversified
Capital structure	Neutral
Financial policy	Neutral
Liquidity	Strong
Management and governance	Neutral
Comparable rating analysis	Neutral
Stand-alone credit profile	bbb-

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, July 7, 2025
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 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
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

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Related Research

- Flex Ltd. Subsidiary's Senior Unsecured Bonds Rated 'BBB-', Nov. 29, 2021

Ratings List

Ratings List	
Ratings Affirmed	
Flex Ltd.	
Issuer Credit Rating	BBB-/Stable/A-3
Commercial Paper	A-3
Flex Ltd.	
Flextronics International Termelo es Szolgaltato Vamszabadteruleti Korlatolt Felelossegu Tarsasag	
Senior Unsecured	BBB-

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