

Flex Ltd. Subsidiary's Senior Unsecured Bonds Rated 'BBB-'

November 29, 2021

NEW YORK (S&P Global Ratings) Nov. 29, 2021--S&P Global Ratings today assigned its 'BBB-' issue rating to the proposed fixed-rate senior unsecured bonds (ISIN HU0000360979) issued by Flex Ltd.'s (BBB-/Stable/A-3) wholly owned Hungarian subsidiary, Flextronics International Termelo es Szolgaltato Vamszabaderuleti Korlatolt Felelossegu Tarsasag. The company will apply the proceeds toward general corporate purposes.

We expect the issue amount will be up to Hungarian forint 100 billion (about \$300 million), 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 proposed notes' unsecured senior ranking and the irrevocable and unconditional guarantee by Flex Ltd.

Our 'BBB-' issuer credit rating on Flex Ltd. reflects the company's global manufacturing scale, focus on relatively higher-margin verticals, countercyclical cash flow generation, and strong liquidity position. Our view of key risks includes a highly competitive market with large global players, high customer concentration, and significant working capital investments to support growth that leads to periods of low free cash flow generation.

While supply chain disruption and component shortages linger, we expect Flex to generate mid-single-digit revenue growth in fiscal 2022 (ending March 31, 2022) because demand is healthy across its end markets. In addition, we view Flex's elevated inventory levels as temporary and expect it to generate \$475 million-\$525 million of free cash flow in fiscal 2022 and to improve, which is a key consideration in our rating on the company. We expect adjusted leverage in the 1.5x-2x range for fiscal 2022, though the company operated with leverage above 2x historically.

The stable outlook reflects our expectation for low- to mid-single-digit revenue growth over the next two years and some EBITDA margin expansion from operational improvements. In addition, we expect the company's share repurchases and tuck-in acquisition activity to keep leverage at about 2x. We could consider raising the rating if we believed Flex would maintain leverage consistently below 2x and generate healthy free cash flow generation while it pursued its acquisition and shareholder return objectives. We could lower the rating if the company lost key customers, incurred higher costs from supply chain changes such that EBITDA margins weakened, and leverage were sustained above 3x. For our previous full credit opinion on the company see "Flex Ltd." published on Dec. 07, 2020.

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019

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- 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
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

New Rating

**Flextronics International Termel# és
Szolgáltató Vámszabadterületi Korlátolt
Felel#sség# Társaság**

Senior Unsecured

HUF100,000 mil notes due 2031 BBB-

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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