S&P Global
Ratings

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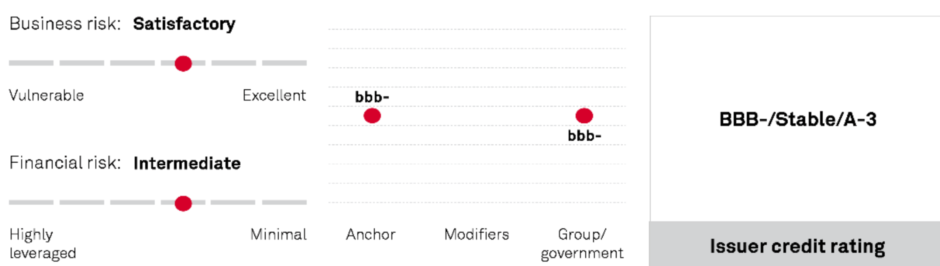
Flex Ltd.

November 10, 2022

Ratings Score Snapshot



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Credit Highlights

Overview

Key strengths	Key risks
Global manufacturing scale and significant scope of services across diverse end markets.	Strong competitive industry dynamics and evolving global supply chain strategies that may lead to rebalancing of manufacturing footprints and affect profitability.
Strategic focus on relatively higher-growth and higher-margin end markets through customer wins and acquisitions.	Significant working capital investment and capex to support customers and revenue growth will pressure free cash flow generation in the near-term.
Countercyclical cash flow generation during periods of weak demand and strong liquidity position.	

We expect share gains and the strong demand in most of Flex Ltd.'s end markets to offset the weakening macroeconomic environment and supply chain constraints. Flex is poised for very strong revenue growth of 15%-17% in the fiscal year ending March 31, 2023 (fiscal 2023) reflecting healthy demand in the near-term. This will likely continue into fiscal 2024, given longer-term industry trends. During the second fiscal quarter (ended Sept. 30, 2022), revenues increased 25% year over year, driven by strong demand across many business segments and new customer wins. Additionally, successful pass-through of cost inflation contributed to top-line growth, although the gain was not highly margin accretive. We expect supply chain challenges to remain a headwind at least through most of 2023, although there are signs of easing pressures.

While these challenges may constrain broader industry growth somewhat in the near term, particularly in areas facing more significant component shortages, we expect Flex's end market diversity to help offset market challenges and weakening demand mainly in the consumer device areas. Despite rising risk of moderating hyperscale cloud investments, Flex has experienced good growth in its CEC segments given the acquisition of Anord Mardix and share gains according to management. Additionally, the increase in demand for outsourced manufacturing given rising geopolitical risks, longer-term secular trends such as next generation 5G, and technology demand in areas like electric vehicles (EVs), industrial automation, health care infrastructure, renewables and power-related products will provide favorable prospects for Flex’s long-term growth.

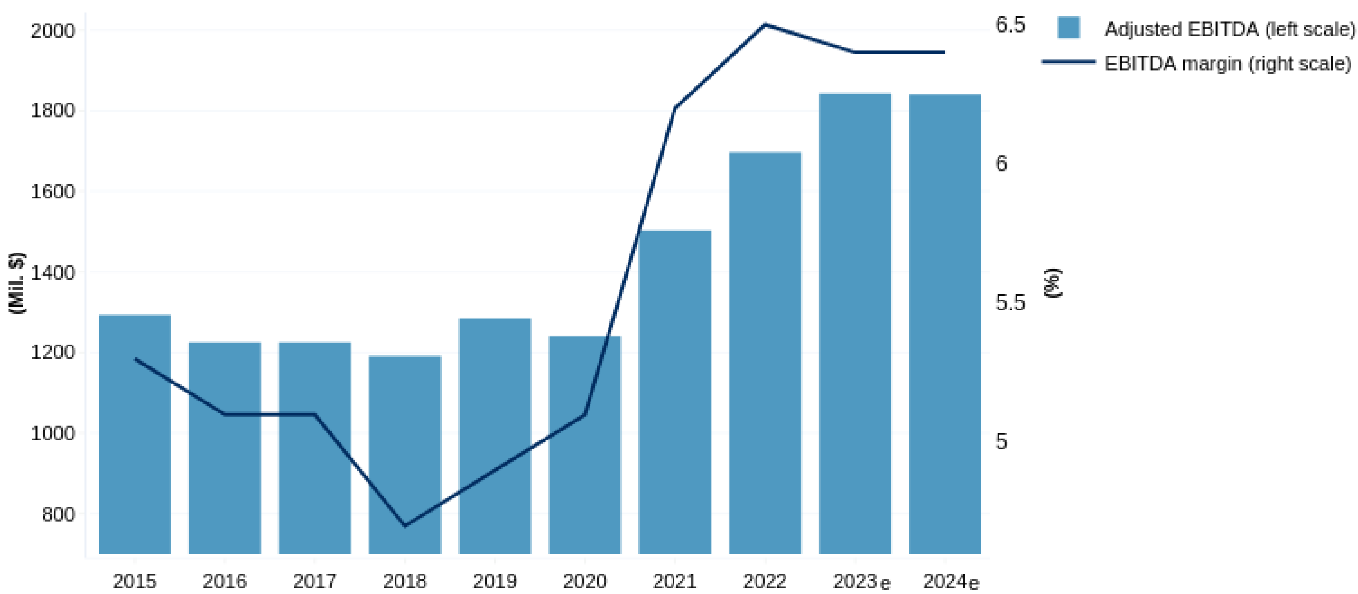
Flex’s strategic focus on improving portfolio mix towards fast-growing, high-margin end markets and diversifying its geographical and customers mix will support its long-term growth and profit expansion. Over the past few years, Flex has de-emphasized certain lower-margin, volatile, and short-cycle engagements to position itself for more profitable growth in longer-cycle businesses such as the automotive, industrial, and health solutions verticals that now represent about 40%-45% of revenues. Its recent operating performance highlights the benefit of end-market diversification, with notable strength in automotive, industrial, healthcare, and CEC, driven by higher spending to support networking and cloud and next-generation mobility products.

Flex’s transformation strategy, including operational improvements and reduced restructuring expenses, has expanded EBITDA margins to mid-6% over the past couple of years compared with 4.5%-5.5% historically. We expect the company’s continued disciplined cost management, manufacturing efficiencies, and faster growth in the Flex Reliability Solutions segment to support EBITDA margins at the higher end of its average profit profile over the next couple of years.

While Flex has managed to increase margins in a difficult environment, the longer-term sustainability of higher margins is somewhat uncertain. We view meaningful improvements above the industry average of 4%-8% for outsourced manufacturing to be limited given significant revenues from lower-margin Flex Agility Solutions, a meaningful fixed-cost structure with low pricing power. Additionally, we are closely monitoring evolving global supply chain strategies and regionalization of manufacturing footprints given their potential impacts on profitability and cash flow generation.

Flex Ltd. Profitability

For the fiscal year ended March 31.

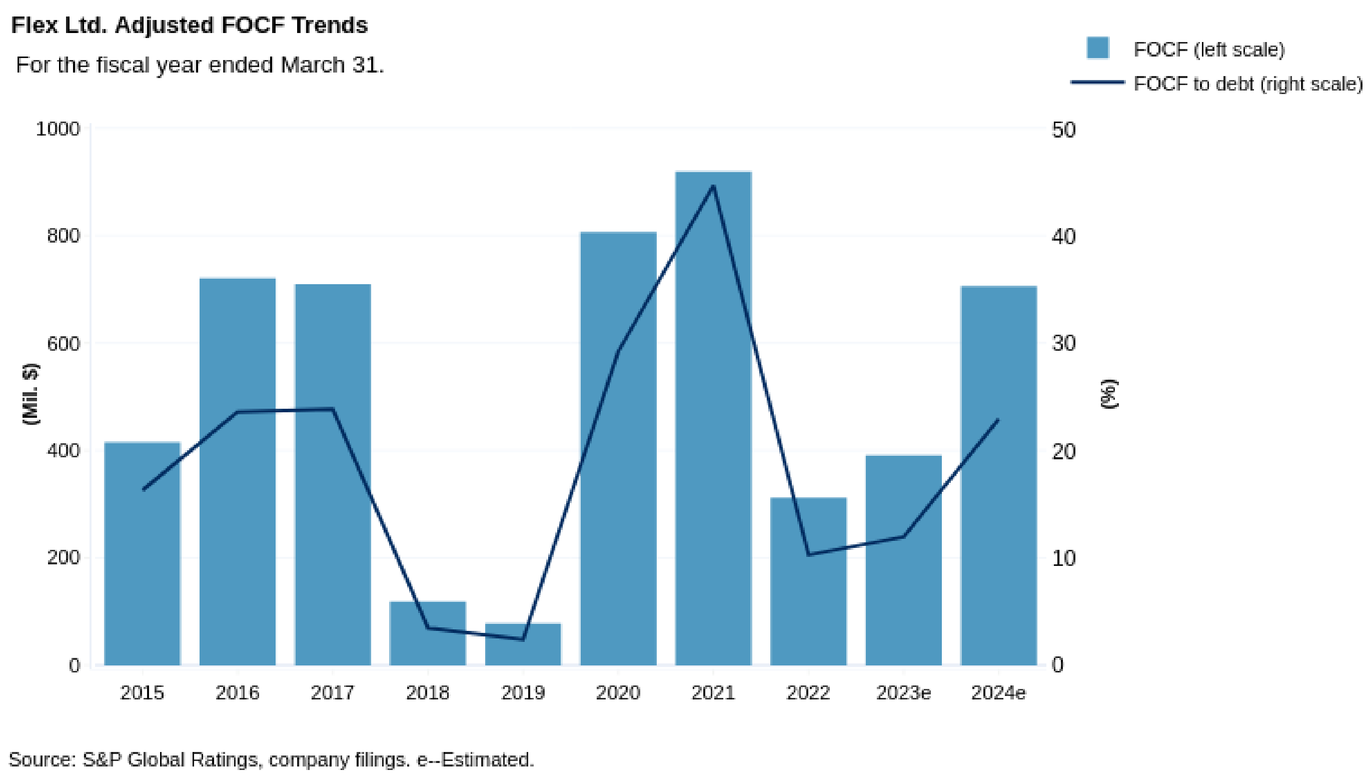


Source: S&P Global Ratings, company filings. e--Estimated.

Strong revenue growth will require higher capital expenditures (capex) and working capital investment. While elevated inventory will likely reverse somewhat this year, we expect the strong demand will result in working capital headwinds and higher capex in the near term, with free operating cash flow (FOCF) remaining low at about $122 million for the trailing 12 months ended Sept. 30, 2022. We expect FOCF to grow over the next couple of years with support from temporarily elevated inventory and working capital that is mainly improved due to reduced inventory levels.

In fiscal 2023, we forecast FOCF generation of $390 million-$400 million (equivalent to reported FOCF of about $465 million) that is stable compared with fiscal 2022. That said, the pace of supply chain improvements remains a challenge and may cause higher-than-usual levels of inventory to meet customer demand.

We expect Flex to focus on strategic acquisitions and opportunistic share repurchases that may constrain cash build and keep the adjusted leverage 1.6x-1.8x over the next two fiscal years compared with our 3x downside trigger. However, we view growing FOCF and reduced volatility over time as key considerations in our rating on the company.



Outlook

The stable outlook reflects our expectation for Flex's specific growth opportunities and strong demand in most business segments, notwithstanding rising macroeconomic risks, to drive mid-teens percent revenue growth in fiscal 2023 and steady EBITDA margins of mid-6%. We also expect elevated inventory levels to moderate such that adjusted FOCF to debt is 14%-20% over the next 12-18 months.

Downside scenario

We could lower our rating on Flex if any of the following affect 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 adjusted leverage consistently below 2x while it pursues acquisition and shareholder return objectives; and
- Flex sustainably grows free cash flow.

Our Base-Case Scenario

Assumptions

- Global GDP grows 3.2% in 2022 and 2.7% in 2023.
- U.S. GDP grows 1.6% year over year in 2022 and 0.2% in 2023.
- Revenue grows 14%-16% in fiscal 2023 and 4%-6% in fiscal 2024 driven by strong demand across end markets such as next generation 5G, cloud and data center, EVs, health care solutions, and automotive. Revenue also sees support from increased adoption of robotics in industries as well as successful pass-through of cost inflation, partly offset by continuing supply chain constraints and weakening macroeconomic conditions.
- S&P Global Ratings-adjusted EBITDA margins of 6.3%-6.6% in fiscal-years 2023 and 2024. The operating leverage from higher revenue scale, improved revenue mix, and consistent cost discipline will be partly offset by cost inflation and continuing supply chain constraints.
- Annual net capex totals about $625 million (about 2% of revenues) in fiscal 2023 to support revenue growth, then moderates to about 1.6%-1.7% of total revenues in fiscal 2024 and beyond.
- Annual share repurchases of $425 million-$450 million.

Key metrics

Flex Ltd.--Key Metrics*

Mil. $	2021a	2022a	2023e	2024f
Revenue	24,124	26,041	29,850-30,000	31,000-31,500
EBITDA margin (%)	6.2	6.5	6.3-6.5	6.4-6.6
FOCF	919	312	390-400	700-750
FOCF to debt (%)	44.8	10.3	11-13	22-24
Debt to EBITDA (x)	1.4	1.8	1.6-1.9	1.6-1.9

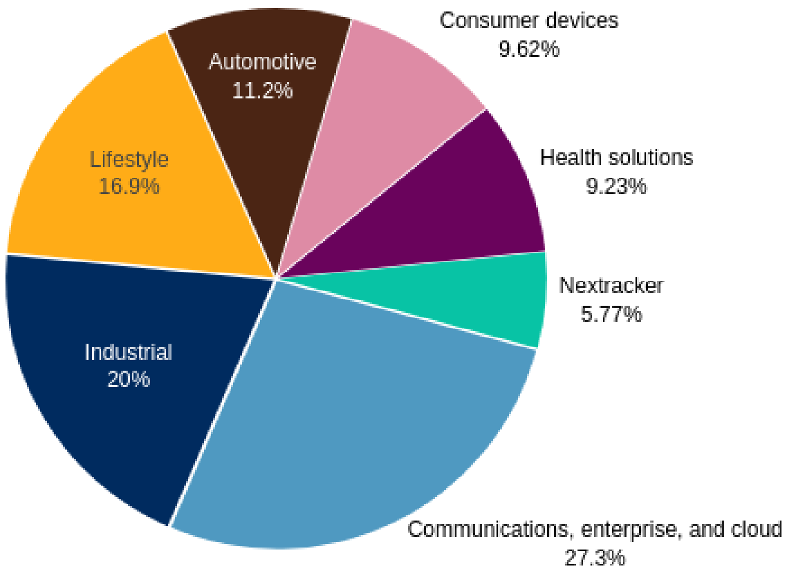
*All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast. FOCF--Free operating cash flow. Fiscal year ended March 31.

Company Description

Flex is a global provider of outsourced manufacturing services including design and engineering services to consumer, communications, data center, and networking manufacturers.

Flex Ltd. Revenue By End Market

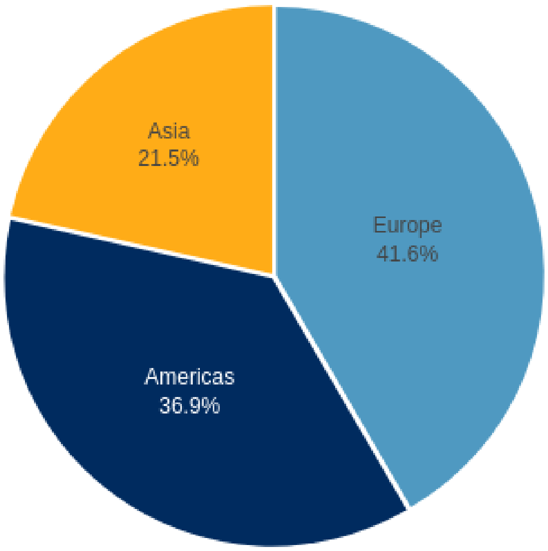
For the fiscal year ended March 31, 2022.



Source: S&P Global Ratings, company filings.

Flex Ltd. Revenue By Region

For the fiscal year ended March 31, 2022.



Source: S&P Global Ratings, company filings.

Peer Comparison

We rate Hon Hai Precision Industry Co. Ltd. higher based on its stronger business profile as the world's largest electronics manufacturing services provider with high market share. Hon Hai has a lower leverage profile and much larger scale, more than offsetting a lower EBITDA margin profile due to lower capacity utilization, strong buyer power, and higher competition that keeps prices down. Hon Hai also has high customer concentration from Apple Inc. and other large customers, contributing about 50% of revenue. We rate Sanmina Corp. and Celestica Inc. lower than Flex due to smaller revenue scale, higher customer concentration (above 50% of revenue), less market share, and limited exposure to expanding end markets such as health, automotive, and industrial. Celestica operates with higher leverage than Flex and Sanmina. We rate both Jabil Inc. and Flex at 'BBB-', reflecting their global scale, domain expertise, and outsourced manufacturing partners with leading customers and balance sheet strength.

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	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly
Period ending	2022-09-30	2022-05-31	2022-07-02	2022-06-30	2022-06-30

Flex Ltd.--Peer Comparisons

Mil.	$	$	$	$	$
Revenue	28,583	31,857	7,332	208,793	6,264
EBITDA	1,822	2,459	492	8,829	376
Funds from operations (FFO)	1,507	2,109	425	7,084	298
Interest	194	153	22	723	42
Cash interest paid	193	139	24	694	33
Operating cash flow (OCF)	283	923	211	308	(32)
Capital expenditure	529	800	121	3,367	68
Free operating cash flow (FOCF)	(246)	123	90	(3,060)	(100)
Discretionary cash flow (DCF)	(695)	(612)	(249)	(5,034)	(201)
Cash and short-term investments	2,453	1,087	493	42,696	366
Gross available cash	2,453	1,087	493	42,696	366
Debt	3,475	4,528	111	0	1,277
Equity	3,770	2,357	1,804	53,267	1,530
EBITDA margin (%)	6.4	7.7	6.7	4.2	6.0
Return on capital (%)	15.6	19.4	16.8	13.6	7.8
EBITDA interest coverage (x)	9.4	16.1	22.7	12.2	9.0
FFO cash interest coverage (x)	8.8	16.2	18.4	11.2	10.0
Debt/EBITDA (x)	1.9	1.8	0.2	0.0	3.4
FFO/debt (%)	43.3	46.6	382.1	NM	23.3
OCF/debt (%)	8.1	20.4	189.9	NM	(2.5)
FOCF/debt (%)	(7.1)	2.7	81.0	NM	(7.9)
DCF/debt (%)	(20.0)	(13.5)	(224.4)	NM	(15.7)

Business Risk

Our view incorporates Flex's leading position as a provider of outsourced manufacturing services that span the entire product life cycle from innovation, design, prototyping, and scale production to after-market and end-of-life services. Flex benefits from a global manufacturing footprint, with most production in emerging geographies to serve its customers. In recent years, Flex improved its revenue mix by gradual shifting into the faster-growing, less volatile, and more profitable automotive, health solutions, and industrial markets and away from the lower-margin, more cyclical consumer and telecommunications businesses.

Although there are significant supply chain disruptions due to component, raw material, and chip shortages as well as logistics challenges from supply and demand mismatch amid the pandemic, we expect Flex to maintain resiliency in its supply chain with a diversified geographic manufacturing footprint. Flex's key business risks include low pricing power, a high fixed-cost structure, and manufacturing sites dictated by device or equipment makers.

While Flex has high exposure to lower-margin, high-cycle industries, its strategy to focus on more attractive end markets and engagement may yield better growth, margin opportunities, and business visibility over time. We believe Flex will continue to pursue lucrative mergers and acquisitions (M&A) opportunities, allowing it to gain scale and expand further into attractive end markets and benefit from secular trends.

Flex's customer diversity has improved over the past several years with its top 10 customers accounting for about 34% in fiscal 2022 from 43% in fiscal 2019, while no single customer accounted for as much as 10%. While Flex will have opportunities to diversify its client base across various verticals and within its product lines, we view customer concentration as inherent in an industry with meaningful market shares held by large manufacturers in their respective end markets.

Financial Risk

We expect Flex to maintain a strong balance sheet, with adjusted leverage of 1.5x-2x over the next two fiscal years. While we acknowledge the company's improved credit metrics due to good operating performance and EBITDA growth, we believe the company's financial policy focusing on inorganic growth and shareholder returns could raise the leverage above 2x longer term. Flex recently increased its share repurchase program after a suspension in 2020 amid the pandemic and repurchased about $686 million of shares in fiscal 2022. We expect Flex will continue to repurchase shares opportunistically and consider tuck-in acquisitions.

Flex benefits from countercyclical operating cash flow historically, though it requires significant working capital investments to support customers and revenue growth that leads to periods of volatile FOCF generation and negative retained cash flow. While customer support alleviates some pressures, the company's growing FOCF expectation is a key rating consideration.

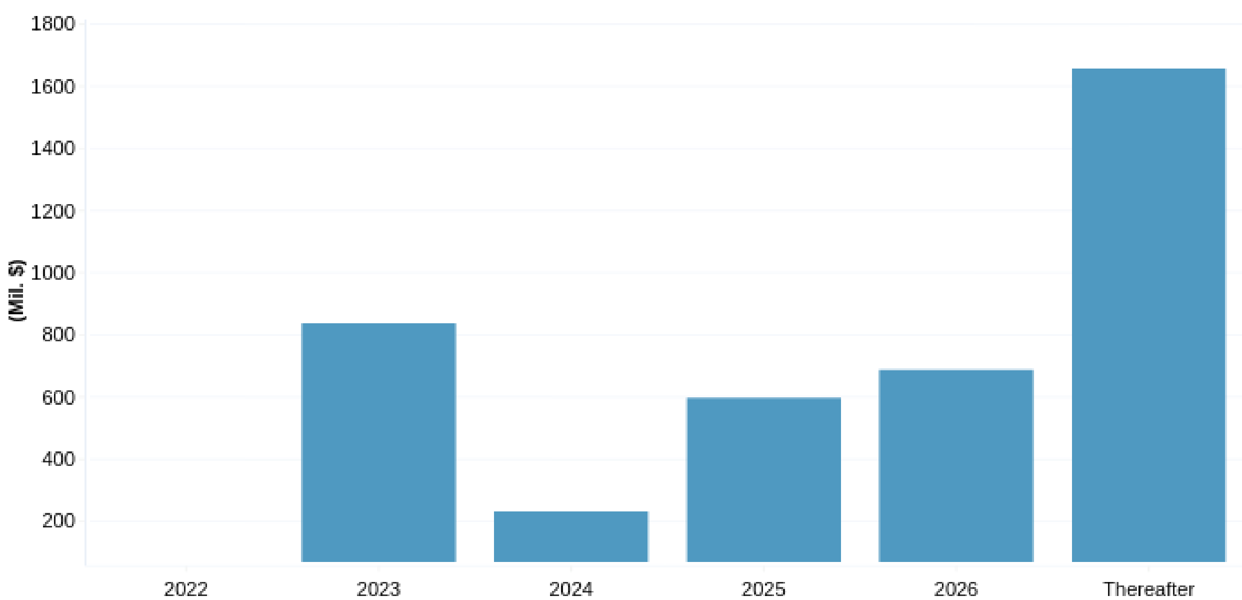
Flex has begun to secure permanent debt funding to replace its asset securitization and receivables factoring program. We expect Flex's lower reliance on asset securitization and accounts receivable factoring programs, which may be used to manage cash conversion, will likely keep net working capital higher than it operated with historically.

Debt maturities

We expect Flex to have manageable debt maturities over the next two years, helped by its strong liquidity position and cash flow generation exceeding scheduled maturities.

Flex Ltd. Long-Term Debt Maturities

For the calendar year.



Source: S&P Global Ratings, company filings. The $2.5 billion revolver expiring in July 2027 is undrawn as of Sept. 30, 2022.

Flex Ltd.--Financial Summary

Period ending	Mar-31-2017	Mar-31-2018	Mar-31-2019	Mar-31-2020	Mar-31-2021	Mar-31-2022
Reporting period	2016a	2017a	2018a	2019a	2020a	2021a
Display currency (mil.)	$	$	$	$	$	$
Revenues	23,863	25,441	26,211	24,210	24,124	26,041
EBITDA	1,225	1,190	1,284	1,241	1,503	1,697
Funds from operations (FFO)	980	916	925	943	1,225	1,381
Interest expense	139	153	181	172	176	191
Cash interest paid	158	183	225	198	173	194
Operating cash flow (OCF)	1,235	680	804	1,269	1,270	755
Capital expenditure	525	562	726	462	351	443
Free operating cash flow (FOCF)	710	118	78	807	919	312
Discretionary cash flow (DCF)	361	(62)	(111)	547	736	(374)
Cash and short-term investments	1,831	1,472	1,697	1,923	2,637	2,964
Gross available cash	1,831	1,472	1,697	1,923	2,637	2,964
Debt	2,966	3,412	3,285	2,759	2,050	3,020
Common equity	2,678	3,019	2,972	2,831	3,436	3,707
Adjusted ratios						
EBITDA margin (%)	5.1	4.7	4.9	5.1	6.2	6.5
Return on capital (%)	8.7	8.1	7.4	5.4	15.7	17.3
EBITDA interest coverage (x)	8.8	7.8	7.1	7.2	8.5	8.9
FFO cash interest coverage (x)	7.2	6.0	5.1	5.8	8.1	8.1
Debt/EBITDA (x)	2.4	2.9	2.6	2.2	1.4	1.8
FFO/debt (%)	33.0	26.8	28.2	34.2	59.8	45.7
OCF/debt (%)	41.7	19.9	24.5	46.0	62.0	25.0
FOCF/debt (%)	23.9	3.5	2.4	29.3	44.8	10.3
DCF/debt (%)	12.2	(1.8)	(3.4)	19.8	35.9	(12.4)

Reconciliation Of Flex Ltd. Reported Amounts With S&P Global Ratings' Adjusted Amounts - USD (Millions)

	Debt	Shareholder equity	Revenue	EBITDA	Operating income	Interest expense	SPGR adj. EBITDA	OCF	Dividends	Capex
Period date	2022-09-30									
Company reported amounts	3,997.0	4,180.0	28,583.0	1,565.9	1,077.0	170.0	1,821.9	651.0	0.0	529.0
Cash taxes paid	-	-	-	-	-	-	(122.0)	-	-	-

Reconciliation Of Flex Ltd. Reported Amounts With S&P Global Ratings' Adjusted Amounts - USD (Millions)

	Debt	Shareholder equity	Revenue	EBITDA	Operating income	Interest expense	SPGR adj. EBITDA	OCF	Dividends	Capex
Cash interest paid	-	-	-	-	-	-	(169.0)	-	-	-
Trade receivables securitizations	800.0	-	-	-	-	-	-	(500.0)	-	-
Lease liabilities	631.4	-	-	-	-	-	-	-	-	-
Operating leases	0.0	-	-	156.0	24.4	24.4	(24.4)	131.6	-	-
Debt-like hybrids	500.0	(500.0)	-	-	-	0.0	0.0	0.0	0.0	-
Accessible cash and liquid investments	(2,453.0)	-	-	-	-	-	-	-	-	-
Share-based compensation expense	-	-	-	100.0	-	-	-	-	-	-
Nonoperating income (expense)	-	-	-	-	5.0	-	-	-	-	-
Noncontrolling/ minority interest	-	90.0	-	-	-	-	-	-	-	-
Total adjustments	(521.6)	(410.0)	0.0	256.0	29.4	24.4	(315.4)	(368.4)	0.0	0.0
S&PGR adjusted	3,475.4	3,770.0	28,583.0	1,821.9	1,106.4	194.4	1,506.5	282.6	0.0	529.0

Liquidity

Our strong liquidity assessment reflects our expectation of sources to exceed its uses by more than 3.2x over the next 12-24 months and overall net sources to remain positive during next 24 months even if EBITDA declines 50%. Our quantitative analysis permits a higher assessment, but it is limited because of our view of Flex's inability to withstand high-impact, low-probability events without refinancing. Additionally, its FOCF can be constrained by high working capital investments to support customers and growth.

Principal liquidity sources

- Cash balance of $2.4 billion as of Sept. 30, 2022.
- Full availability under its $2.5 billion revolving credit facility expiring July 2027.
- Annual cash flow from operations of $1 billion-$1.2 billion in fiscal years 2023 and 2024.

Principal liquidity uses

- Annual capex of $625 million in fiscal year 2023 and $525 million-$550 million in fiscal year 2024.
- Approximately $837 million of debt maturities in calendar 2023 and about $232 million in 2024.

Covenant Analysis

Requirements

Flex's credit agreement contains a maximum leverage covenant of 4x and minimum interest coverage ratio of 3x.

Compliance expectations

We expect Flex to maintain adequate covenant cushion over next two years.

Environmental, Social, And Governance

ESG Credit Indicators

E-1	**E-2**	E-3	E-4	E-5	S-1	**S-2**	S-3	S-4	S-5	G-1	**G-2**	G-3	G-4	G-5

ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicator Definitions And Applications," published Oct. 13, 2021.

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 (GHG) 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. Flex has the following key sustainability targets, in line with those of industry peers: reduce absolute scope 1 and 2 GHG emissions 50% by 2030 from a 2019 base year; zero waste in 50% of its manufacturing sites by 2025; and reduce water withdrawn 5%, focusing on sites in water-scarce areas by 2025.

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-denominated bonds) 'BBB-', the same as issuer credit ratings, 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) Hungarian forint 100 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	Fair (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	**--**

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
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, 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 Detail (as of November 15, 2022)*

Flex Ltd.	
Issuer Credit Rating	BBB-/Stable/A-3
Commercial Paper	
Foreign Currency	A-3
Senior Unsecured	BBB-
Flextronics International Termelo es Szolgaltato Vamszabadteruleti Korlatolt Felelossegu Tarsasag	
Senior Unsecured	
HUF100,000 mil notes due 2031	BBB-

Issuer Credit Ratings History

31-Jan-2020	BBB-/Stable/A-3
20-May-2015	BBB-/Stable/--
16-Jun-2014	BB+/Positive/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.