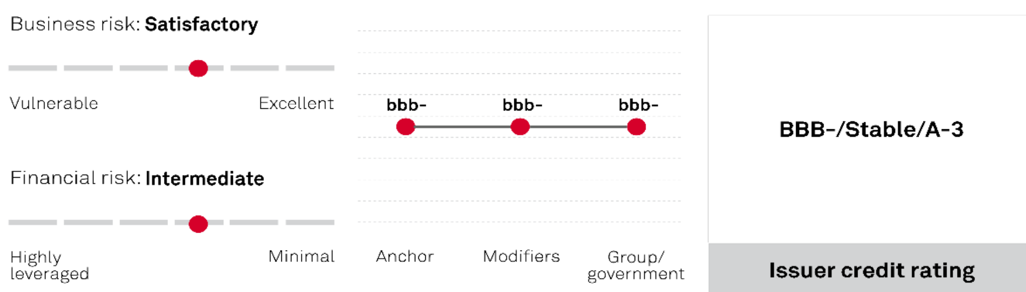
DRAFT: Flex Ltd.

November 6, 2023

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 may lead to rebalancing of manufacturing footprints and affect profitability and cash flow.
Strategic focus on relatively higher-growth and higher-margin end markets through customer wins and acquisitions.	Significant working capital investment and capital expenditure (capex) to support customers and revenue growth constrains free cash flow growth.
Countercyclical cash flow generation during periods of weak demand and strong liquidity position.	

The challenging macroeconomic environment will likely dampen Flex Ltd.'s growth in the near term, but it benefits from its strategic focus on improving end market mix. Flex's strong revenue growth over the past few quarters is moderating given continued end market weakness in areas like consumer, enterprise information technology (IT) and communication infrastructure, and emerging headwinds in autos. Revenues decreased about 4% year over year in the fiscal second quarter (ended September 29, 2023), but this compares with its strong performance last year (over a 24% increase). As a result, the company lowered its growth expectations about 8% (at the midpoint of guidance) as demand headwinds will likely persist over the next few quarters. We expect revenues to decrease about 7% overall in fiscal 2024 (ending March 31, 2024), but stable profitability offsets this.

Flex’s transformation strategy, including manufacturing footprint optimization, has allowed it to manage inflation and expand its S&P Global Ratings-adjusted EBITDA margin to the mid-6% area over the past couple of years compared with 4.5%-5.5% historically. We expect margins to remain above the historic range at about 6.9% in fiscal 2024 but moderate to about 6.3% following the spinoff of Nextracker. We include three quarters of Nextracker earnings contribution, which carries higher-margin, offset by about $125 million of restructuring expenses incurred in fiscal 2024.

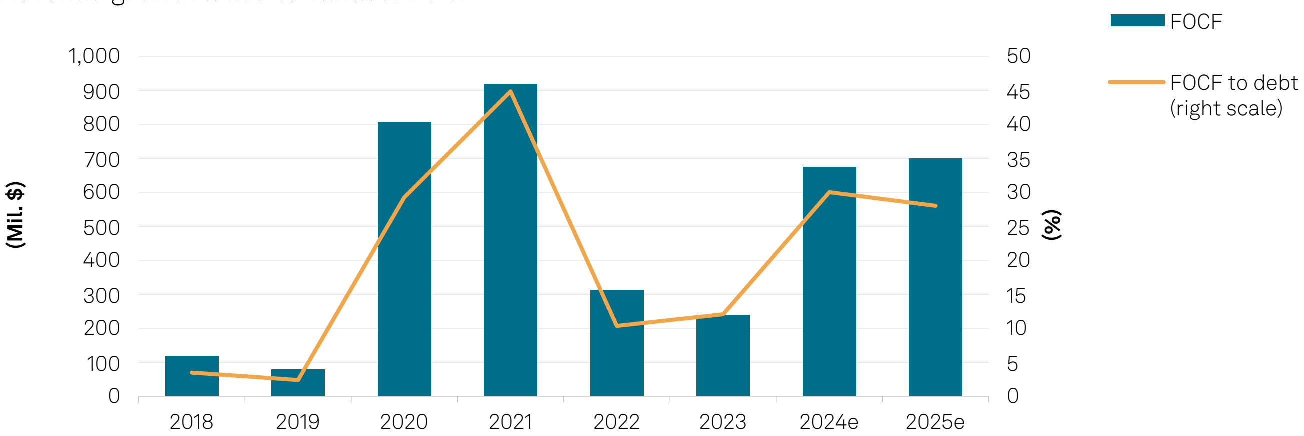
While the uncertain backdrop will constrain broader industry growth, Flex's end-market diversity offsets some of the near-term market challenges and soft demand. The company is experiencing steady growth in areas like next-generation mobility, cloud, and digital health devices. Over the past few years, Flex has deemphasized certain lower-margin, volatile, and short-cycle engagements to position itself for more profitable growth in these longer-cycle areas that now represent about 40%-45% of revenues. We believe Flex’s strategic focus on expanding its portfolio mix towards fast-growing, high-margin end markets and diversifying its geographical and customers mix will be important to its long-term growth and sustained profit improvements.

We expect strong credit metrics, but Flex’s shifting focus to shareholder returns offsets this. The company has operated with lower debt to EBITDA relative to similarly rated peers, helped by healthy profit margins and a significant cash balance that we believe exceeds minimum operating levels. Flex’s S&P Global Ratings-adjusted leverage was about 1x as of Sept. 29, 2023, including cash netting of about $2.9 billion. We expect it to focus on strategic business and share repurchases that will likely constrain further cash build and raise its S&P Global Ratings-adjusted leverage over the next two fiscal years.

We acknowledge the company has demonstrated deleveraging over the past few years and maintains a good cushion relative to our 3x downside trigger; however, its growing free operating cash flow (FOCF) and reduced volatility over time are key considerations in our rating on the company. In fiscal 2024, we forecast annual adjusted FOCF generation of about $800 million (equivalent to reported FOCF of about $675 million). This leads to FOCF to debt above 25%, but we believe the sustainability of low net debt levels is uncertain given the company’s focus on share repurchases, which have been somewhat constrained by modest discretionary cash flow historically.

Flex Ltd--FOCF and FOCF to debt

Revenue growth leads to variable FOCF



FOCF--Free operating cash flow. e--Estimate. Sources: S&P Global Ratings and company filings.

Outlook

The stable outlook reflects our expectation for Flex to maintain low debt to EBITDA in the low-1x area and improve free cash flow to about $675 million over the next 12 months despite increasing demand risks in areas like consumer and communications infrastructure. We expect steady outsourcing demand in areas such as auto, digital health, and pockets of cloud to offset near-term demand headwinds.

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.

Our Base-Case Scenario

Assumptions

- Global GDP grows 3.1% in 2023 and 2.8% in 2024.
- U.S. GDP grows 1.3% in 2023 and 1.3% in 2024.
- Revenue decreases 7% in fiscal 2024 (falls 6% excluding Nextracker) and 1.5% in fiscal 2025 (increases 4% excluding Nextracker), driven by demand headwinds in consumer and communications infrastructure. We expect steady demand in areas like health care solutions and automotive.
- Spinoff of Nextracker completed in the fourth quarter of fiscal 2024.
- S&P Global Ratings-adjusted EBITDA margins of 6.9% in fiscal year 2024 and 6.3% in fiscal 2025, reflecting $125 million of restructuring expenses and the deconsolidation of Nextracker that carries higher margins.
- Annual net capex totals about $565 million (about 2% of revenues) in fiscal 2024 and $587 million in fiscal 2025.

Key metrics

Flex Ltd.--Forecast summary

Period ending	Mar-31-2020	Mar-31-2021	Mar-31-2022	Mar-31-2023	Mar-31-2024	Mar-31-2025	Mar-31-2026	Mar-31-2027
(Mil. $)	2019a	2020a	2021a	2022a	2023e	2024f	2025f	2026f
Revenue	24,210	24,124	26,041	30,346	28,350	27,950	28,923	29,930
Gross profit	2,057	2,190	2,356	2,702	2,730	2,428	2,498	2,569
EBITDA (reported)	1,006	1,272	1,450	1,680	1,625	1,422	1,485	1,551
Plus: Operating lease adjustment (OLA) rent	163	152	156	151	151	151	151	151
Plus/(less): Other	72	79	91	133	176	180	180	180
EBITDA	1,241	1,503	1,697	1,964	1,952	1,753	1,816	1,882
Less: Cash interest paid	(198)	(173)	(194)	(255)	(188)	(185)	(165)	(182)
Less: Cash taxes paid	(99)	(105)	(122)	(124)	(180)	(180)	(180)	(180)
Funds from operations (FFO)	943	1,225	1,381	1,585	1,584	1,388	1,471	1,521
EBIT	321	869	1,054	1,226	1,138	942	1,005	1,072
Interest expense	172	176	191	259	188	185	165	182
Cash flow from operations (CFO)	1,269	1,270	755	873	1,371	1,488	1,471	1,521
Capital expenditure (capex)	462	351	443	635	567	587	550	539
Free operating cash flow (FOCF)	807	919	312	238	804	901	921	982
Dividends	--	--	--	22	--	--	--	--
Share repurchases (reported)	260	183	686	337	1,200	1,400	1,000	1,000
Discretionary cash flow (DCF)	547	736	(374)	(121)	(396)	(499)	(79)	(18)
Debt (reported)	2,838	3,783	4,197	3,841	3,288	2,689	2,890	3,030
Plus: Lease liabilities debt	643	704	687	632	651	670	691	711
Less: Accessible cash and liquid Investments	(1,923)	(2,637)	(2,964)	(3,294)	(2,221)	(1,000)	(1,000)	(1,000)
Plus/(less): Other	1,200	200	1,100	800	800	800	800	800
Debt	2,759	2,050	3,020	1,979	2,518	3,160	3,381	3,541
Equity	2,831	3,436	3,707	5,706	5,479	4,836	4,675	4,566
FOCF (adjusted for lease capex)	807	760	234	119	661	758	779	840
Interest expense (reported)	146	150	166	231	161	157	137	152

Flex Ltd.--Forecast summary

Capex (reported)	462	351	443	635	567	587	550	539
Cash and short-term investments (reported)	1,923	2,637	2,964	3,294	2,221	1,000	1,000	1,000
Adjusted ratios								
Debt/EBITDA (x)	2.2	1.4	1.8	1.0	1.3	1.8	1.9	1.9
FFO/debt (%)	34.2	59.8	45.7	80.1	62.9	43.9	43.5	43.0
FFO cash interest coverage (x)	5.8	8.1	8.1	7.2	9.4	8.5	9.9	9.4
EBITDA interest coverage (x)	7.2	8.5	8.9	7.6	10.4	9.5	11.0	10.4
CFO/debt (%)	46.0	62.0	25.0	44.1	54.4	47.1	43.5	43.0
FOCF/debt (%)	29.3	44.8	10.3	12.0	31.9	28.5	27.3	27.7
DCF/debt (%)	19.8	35.9	(12.4)	(6.1)	(15.7)	(15.8)	(2.3)	(0.5)
Annual revenue growth (%)	(7.6)	(0.4)	7.9	16.5	(6.6)	(1.4)	3.5	3.5
Gross margin (%)	8.5	9.1	9.0	8.9	9.6	8.7	8.6	8.6
EBITDA margin (%)	5.1	6.2	6.5	6.5	6.9	6.3	6.3	6.3
Return on capital (%)	5.4	15.7	17.3	17.0	14.5	11.8	12.5	13.3
EBITDA/cash interest (x)	6.3	8.7	8.8	7.7	10.4	9.5	11.0	10.4
EBIT interest coverage (x)	1.9	4.9	5.5	4.7	6.0	5.1	6.1	5.9
Debt/debt and equity (%)	49.4	37.4	44.9	25.8	31.5	39.5	42.0	43.7

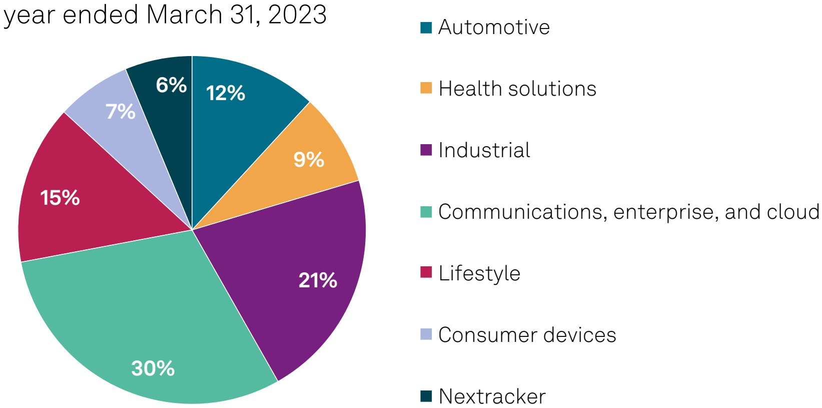
All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast. $--U.S. dollar.

Company Description

Flex is a global provider of outsourced manufacturing services including design and engineering services to consumer, communications, data center, and networking manufacturers. The company owned 51.5% of Nextracker stock as of September 29, 2023, and expects to complete the spinoff by the end of fiscal 2024.

Flex Ltd.--Diversified end markets

For the fiscal year ended March 31, 2023



Sources: S&P Global Ratings and company filings.

Peer Comparison

We rate both Jabil Inc. and Flex at 'BBB-', reflecting their global scale, domain expertise, and outsourced manufacturing relationships with leading customers and balance sheet strength. 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 net cash position and significant scale that more than offsets a lower EBITDA margin profile, 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 their smaller revenue scale, higher customer concentration, 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.

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	Annual	Quarterly	Quarterly	Quarterly
Period ending	2023-06-30	2023-08-31	2023-07-01	2023-06-30	2023-06-30
Mil.	$	$	$	$	$
Revenue	30,335	34,702	9,091	207,789	7,743
EBITDA	2,012	2,708	656	7,983	468
Funds from operations (FFO)	1,636	2,161	560	5,638	310
Interest	260	223	38	1,744	84
Cash interest paid	252	228	37	1,322	70
Operating cash flow (OCF)	944	1,912	262	10,577	334
Capital expenditure	695	708	201	3,212	136
Free operating cash flow (FOCF)	249	1,204	61	7,365	198
Discretionary cash flow (DCF)	(126)	636	(37)	4,829	150
Cash and short-term investments	2,660	1,829	657	39,666	361
Gross available cash	2,660	1,829	657	39,666	361
Debt	2,375	2,925	0	0	1,206
Equity	5,786	2,867	2,266	50,829	1,681
EBITDA margin (%)	6.6	7.8	7.2	3.8	6.0
Return on capital (%)	15.6	26.5	20.2	14.2	10.6
EBITDA interest coverage (x)	7.7	12.1	17.5	4.6	5.6
FFO cash interest coverage (x)	7.5	10.5	16.3	5.3	5.4
Debt/EBITDA (x)	1.2	1.1	0.0	0.0	2.6
FFO/debt (%)	68.9	73.9	NM	NM	25.7
OCF/debt (%)	39.8	65.4	NM	NM	27.7
FOCF/debt (%)	10.5	41.2	NM	NM	16.4
DCF/debt (%)	(5.3)	21.7	NM	NM	12.5

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 aftermarket and end-of-life services. Flex benefits from a global manufacturing footprint, with most production locations in emerging geographies to serve its customers. Flex's key business risks include lower pricing power given large customer relationships, exposure to high-cycle industries, a high but reducing fixed-cost structure, and manufacturing sites dictated by device or equipment makers.

The company is focused on gradually shifting into the faster-growing, less volatile, and more profitable markets like automotive, health solutions, and industrial markets and reducing exposure to lower-margin, more cyclical consumer and telecommunications businesses. While the company has meaningful exposure to lower-margin areas, we believe its strategy to focus on more attractive end markets and engagement may yield better growth, margin opportunities, and business visibility over time. We expect Flex will continue to evaluate its portfolio including tuck-in mergers and acquisitions 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 2023, down 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.

Flex has managed to increase margins in a difficult inflationary environment, but 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 believe evolving global supply chain strategies and regionalization of manufacturing footprints given their potential impacts on profitability and cash flow generation are risks worth monitoring.

Financial Risk

Flex has demonstrated deleveraging over the past few years, and we expect it to maintain a strong balance sheet over the next two fiscal years. While we acknowledge the company's improved credit metrics, with S&P Global Ratings-adjusted leverage of 1.0x-1.5x due to improved profitability, we believe its financial policy focusing on tuck-in acquisitions and increased shareholder returns will likely raise debt to EBITDA over time. We view the sustainability of low net debt levels as uncertain.

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

We expect Flex will continue to use its receivables factoring program to manage working capital and cash conversion cycle. We treat amounts used under this program as debt.

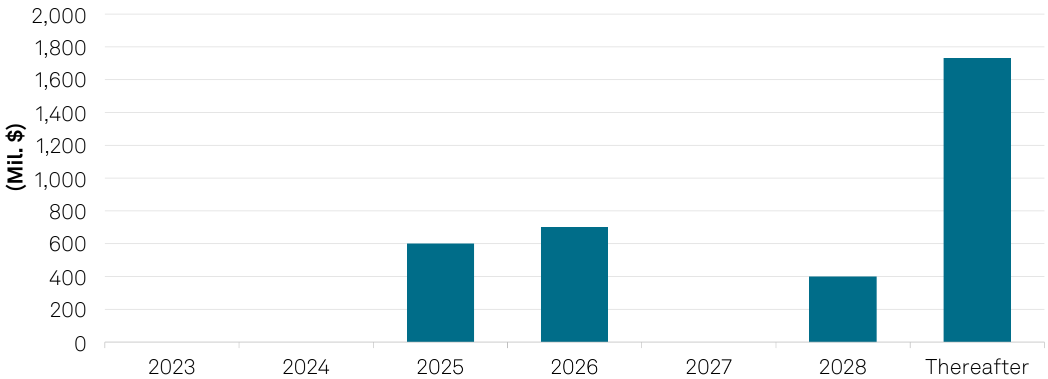
Debt maturities

We expect Flex will have sufficient liquidity to manage any debt maturities over the next two years, helped by its strong liquidity position that exceeds scheduled maturities in calendar years

2025 and 2026. The company recently repaid the $214 million outstanding on its term loans due in 2024.

Flex Ltd.--Debt maturities

Flex has manageable debt maturities over the next several years



Sources: S&P Global Ratings and company filings.

Flex Ltd.--Financial Summary

Period ending	Mar-31-2018	Mar-31-2019	Mar-31-2020	Mar-31-2021	Mar-31-2022	Mar-31-2023
Reporting period	2017a	2018a	2019a	2020a	2021a	2022a
Display currency (mil.)	$	$	$	$	$	$
Revenues	25,441	26,211	24,210	24,124	26,041	30,346
EBITDA	1,190	1,284	1,241	1,503	1,697	1,964
Funds from operations (FFO)	916	925	943	1,225	1,381	1,585
Interest expense	153	181	172	176	191	259
Cash interest paid	183	225	198	173	194	255
Operating cash flow (OCF)	680	804	1,269	1,270	755	873
Capital expenditure	562	726	462	351	443	635
Free operating cash flow (FOCF)	118	78	807	919	312	238
Discretionary cash flow (DCF)	(62)	(111)	547	736	(374)	(121)
Cash and short-term investments	1,472	1,697	1,923	2,637	2,964	3,294
Gross available cash	1,472	1,697	1,923	2,637	2,964	3,294
Debt	3,412	3,285	2,759	2,050	3,020	1,979
Common equity	3,019	2,972	2,831	3,436	3,707	5,706
Adjusted ratios						
EBITDA margin (%)	4.7	4.9	5.1	6.2	6.5	6.5
Return on capital (%)	8.1	7.4	5.4	15.7	17.3	17.0
EBITDA interest coverage (x)	7.8	7.1	7.2	8.5	8.9	7.6
FFO cash interest coverage (x)	6.0	5.1	5.8	8.1	8.1	7.2

Flex Ltd.--Financial Summary

Debt/EBITDA (x)	2.9	2.6	2.2	1.4	1.8	1.0
FFO/debt (%)	26.8	28.2	34.2	59.8	45.7	80.1
OCF/debt (%)	19.9	24.5	46.0	62.0	25.0	44.1
FOCF/debt (%)	3.5	2.4	29.3	44.8	10.3	12.0
DCF/debt (%)	(1.8)	(3.4)	19.8	35.9	(12.4)	(6.1)

Reconciliation Of Flex Ltd. Reported Amounts With S&P Global Adjusted Amounts (Mil. $)

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Financial year	Mar-31-2023									
Company reported amounts	3,841	5,351	30,346	1,680	1,184	231	1,964	950	22	635
Cash taxes paid	-	-	-	-	-	-	(124)	-	-	-
Cash interest paid	-	-	-	-	-	-	(227)	-	-	-
Trade receivables securitizations	800	-	-	-	-	-	-	(200)	-	-
Lease liabilities	632	-	-	-	-	-	-	-	-	-
Operating leases	-	-	-	151	28	28	(28)	123	-	-
Accessible cash and liquid investments	(3,294)	-	-	-	-	-	-	-	-	-
Share-based compensation expense	-	-	-	133	-	-	-	-	-	-
Nonoperating income (expense)	-	-	-	-	14	-	-	-	-	-
Noncontrolling/ minority interest	-	355	-	-	-	-	-	-	-	-
Total adjustments	(1,862)	355	-	284	42	28	(379)	(77)	-	-
S&P Global Ratings adjusted	**Debt**	**Equity**	**Revenue**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from Operations**	**Operating cash flow**	**Dividends**	**Capital expenditure**
	1,979	5,706	30,346	1,964	1,226	259	1,585	873	22	635

Liquidity

Our strong liquidity assessment reflects our expectation for sources to exceed uses by more than 6x 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 that Flex's high excess liquidity is temporary as it increases share repurchases. Additionally, its FOCF can be variable and constrained by high working capital investments to support customers and growth.

Principal liquidity sources

- Cash balance of $2.9 billion as of Sept. 29, 2023.
- Full availability under its $2.5 billion revolving credit facility expiring July 2027.
- Annual cash flow from operations of $1.2 billion-$1.3 billion in fiscal years 2024 and 2025.

Principal liquidity uses

- Annual capex of $565 million in fiscal year 2024 and $585 million in fiscal year 2025.
- Approximately $600 million of debt maturities in 2025 and $700 million in 2026.

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 an adequate covenant cushion over the next two years.

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, 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	Fair (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: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- ARCHIVE | General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings Detail (as of November 06, 2023)*

Flex Ltd.

Issuer Credit Rating	BBB-/Stable/A-3
Commercial Paper	

Ratings Detail (as of November 06, 2023)*

Foreign Currency	A-3
Senior Unsecured	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.