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Flex Ltd. (FLEX)

Investor Day - Q4 2024

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MANAGEMENT DISCUSSION SECTION

David A. Rubin
Vice President-Investor Relations, Flex Ltd.

Good morning and welcome to our Fourth Quarter Fiscal 2024 Earnings Call along with our Virtual Investor Day. I'm David Rubin, Vice President of Investor Relations.

Running through this morning's agenda, first, I'll take you through our Q4 and fiscal 2024 results. Then our CEO, Revathi Advaithi, will provide an update on our strategy, our progress and our plans for the next several years. She'll be joined by Michael Hartung, President of our Agility segment; and Becky Sidelinger, President of our Reliability segment, who will take you through some interesting examples, showcasing our differentiation in our cloud and automotive businesses. Next, our CFO, Paul Lundstrom, will present on our financial framework and our outlook.

Lastly, we'll have some time for Q&A. Please note all questions need to be submitted through the Q&A chat function at the bottom of the event platform on your screen. You can submit questions any time during the event, and we will answer as many as we can as time allows.

Before we start, I need to briefly run through a few housekeeping items, slides for today's call, as well as a copy of the earnings press release and summary financials are available on the Investor Relations section at flex.com. This call is being recorded and will be available for replay on the corporate website.

Today's call contains forward-looking statements, which are based on our current expectations and assumptions. These statements involve risks and uncertainties that could cause actual results to differ materially. For a full discussion of these risks and uncertainties, please see the cautionary statements in our presentation, press release, or in the Risk Factors section in our most recent filings with the SEC.

Note, this information is subject to change and we undertake no obligation to update these forward-looking statements. And please note, unless otherwise stated, all results provided will be non-GAAP measures and our growth metrics will be on a year-over-year basis. The full non-GAAP to GAAP reconciliations can be found in the appendix slides of today's presentation, as well as in the summary financials posted on our Investor Relations website.

Lastly, as stated in our earnings press release, Nextracker was reclassified to discontinued ops. So it is now excluded from our results, including the full fiscal year 2024 results, which show today, and therefore, not comparable to previous Street estimates. Additionally, we recast our prior results through fiscal 2022 to reflect discontinued ops and provide enhanced historical transparency into Flex performance.

With that, I'll jump into our Q4 results. We had a solid Q4 as we continued to execute well in a dynamic environment. Fourth quarter total revenue was $6.2 billion, down 12%. However, gross profit improved to $532 million, with a gross margin coming in at 8.6%, an increase of 160 basis points from the prior year. And operating margin was a record 5.4%, up 120 basis points from the prior year and up 50 basis points from Q3 on favorable mix/cost action initiatives.

Adjusted earnings per share came in at $0.57 for the quarter, increasing 30%. GAAP earnings per share came in at $0.93. The larger-than-usual difference to non-GAAP EPS is primarily due to a one-time non-cash tax benefit related to the recording of tax loss carry-forwards, which we now believe will be utilized in the future. Additionally, there was a one-time non-cash accrual related to the future tax consequences of distributing earnings from our Chinese subsidiaries up to our parent entity for the use within the organization.

Turning to our quarterly segment results. Reliability revenue was $2.9 billion, with very strong demand in cloud power solutions and solid demand in auto and medical devices. Operating income came in at $171 million, and operating margin improved again, both sequentially and year-over-year to 5.8%. In Agility, revenue came in at $3.2 billion as we delivered on very strong AI-driven cloud demand and operating income increased 6% to $181 million, and the team delivered another segment record with a strong 5.6% operating margin.

Looking at our full-year results now, and as a reminder, the full-year results you see here reflect Flex-only for the entire year as we've moved Nextracker to discontinued operations. Revenue for the year was $26.4 billion, down 7% from the prior year. Gross profit totaled $2.1 billion and gross margin improved to 7.8%, up 70 basis points year-over-year.

Operating income for fiscal year 2024 totaled $1.3 billion, up 3%, with a record annual 4.8% Flex operating margin. For the full year, EPS came to $2.15, up 11% despite the revenue headwinds. GAAP EPS came in at a $1.98, primarily due to the previously mentioned tax-related non-cash onetime benefits. I'll also point out we completed our Nextracker tax-free spend this last quarter. And as you can see on this slide, we generate substantial value through multiple phases of this transaction.

At the bottom of this slide, we provide revenue performance by business unit for the full year. Reliability revenue was $12.5 billion, with operating margin finishing at a record annual rate of 5.3%. Within Reliability, automotive revenue was up 6%, primarily driven by new ramps and content growth. Health solutions was up 3% with strong medical device demand muted by an industry slowdown in life sciences and hospital-related CapEx spending.

Industrial was down 8% with very strong datacenter power demand, offset by general slowing in industrial CapEx and weaker residential solar. Overall, the strong margin results are coming from continued ramps and higher value programs, the resolution to previous supply chain-related disruptions and strong execution on cost controls.

Agility segment revenue came in at $13.9 billion, delivering a record annual operating margin of 4.8%. This strong margin reflects our strategy to focus on shifting to profitable business, expanding verticalization in value-added services, as well as strong cost management, given macro-related slowing in certain markets.

Within Agility, CEC was down 7% with strong new cloud ramps offset by slowing in other parts of enterprise IT and telco spending. Consumer devices revenue was down 24%, reflective of consumer end-market weakness. And finally, lifestyle revenue was down 17%, also reflective of current consumer spending trends in high-end durable goods.

Moving to cash flow. Net inventory came down again this quarter by 6% sequentially and 16% year-over-year, and we expect continued reductions in inventory in the coming quarters. Q4 net CapEx came in at $77 million and $505 million for the full year on target at 2% of revenue. Free cash flow in the quarter was very strong, reaching $602 million, and for the full year, free cash flow was $821 million. This is well above our target of $600 million for the year, which originally had assumed a combined Flex and Nextracker for the full year.

In the quarter, we returned $517 million to shareholders through share repurchases, and for the fiscal year, we returned $1.3 billion, which is a record in annual cash returns to our investors.

Overall, we continue to execute on our strategy through the cycle. This is reflected in our performance, in our ability to deliver strong margin expansion and EPS growth.

So that about wraps up our results for the quarter and for fiscal year 2024. Now we will move on to our Virtual Investor Day event.

So to kick things off, we'll start with a short video followed by our Chief Executive Officer, Revathi Advaithi.

[Video Presentation] (00:08:16-00:10:33)

Revathi Advaithi
Chief Executive Officer & Director, Flex Ltd.

Good morning and thank you for joining us today for a virtual event. I want to say a few words about our Q4 and fiscal year 2024 results. I'm very pleased with our performance. Given the dynamic environment we experienced this past year, although year-over-year revenue was down, we still delivered strong margin expansion and EPS growth in both Q4 and in the full year.

Our results show that we can navigate effectively through the cycle and deliver increased value to our stakeholders. I am very proud of how our team delivered throughout the year, but I also want to thank our customers for their continued trust and partnership. In addition to our Q4 and fiscal year 2024 earnings today, we announced that as part of a planned succession, Michael Capellas, our Board Chairman, has chosen not to stand for re-election at our next annual shareholder meeting in August. Michael has served on Flex's board for ten years and has been chairman since 2017. He played a key role in building Flex's reputation and driving our success. I want to personally thank Michael for his unwavering commitment and service, and we wish him all the very best. Bill Watkins will succeed Michael as Chairman. Bill is a very experienced board member and will provide continuity in board leadership. I would like to welcome Bill to his new role.

Now looking ahead, let's get into the details of what's next. So if you're new to Flex, we are one of the world's largest contract manufacturing and supply chain partners. Through a global footprint of manufacturing, design and service locations, we serve a broad base of leading brands across diversified markets. From manufacturing electronics to a fully integrated product, we offer solutions to meet our customers' unique needs and help them better manage their entire product lifecycle. We focus on large diverse markets where we have plenty of room to grow, where the macro and the secular trends are in our favor, and where we can differentiate to generate profitable growth. But today, we'll discuss how our combination of manufacturing capabilities, our cross-industry expertise, our products and services create points of differentiation and contributes to our success in key markets. Of course, we will also discuss our financial framework and how we'll continue to generate shareholder value.

Now going on to the next slide. At our last Investor Day in March of 2022, we spoke about macro and secular trends that were fueling demand for higher levels of outsourcing. In turn, this demand is driving growth and margin expansion for Flex and the overall EMS industry. We specifically reviewed three major inflections within the markets we serve that provided additional opportunities for Flex. Since our last Investor Day, our cloud business grew at about a 40% growth rate. Now, that is twice the rate we originally expected. This growth has been fueled by generative AI and our customer's recognizing our unique value proposition for the data center.

Our next-gen mobility business grew slightly over the expected 50% growth rate as the vehicles continue to integrate more advanced technology and content regardless of the powertrain. Medical device growth was above our 15% expected growth rate as new digital technologies and smaller form factors are improving patients' lives in areas such as chronic care treatment. Health solutions overall was closer to 6% due to the temporary macro impact on life sciences and hospital equipment spending. Still, we remain very confident about the long-term opportunity for our health solutions business.

Now stepping back and looking at how we've performed through the cycle since launching our Flex Forward strategy. We delivered mid-single-digit revenue growth. We expanded our adjusted operating margin from 3.7% to 4.8%, and we grew EPS at a 20% growth rate. All this creating significant value for our shareholders. Going on to the next slide as a reminder, digitization, regionalization and sustainability are some of the high level trends we discussed in our last meeting. The digitization of everything trend is about brands wanting to create smarter products, of course, by integrating more technology, ultimately offering customers more advanced features.

Regionalization, of course, is a topic all by itself. But the short version is that today it's table stakes. Companies have to build resiliency into supply chains and have multiple regional locations to speed their time to market, improve their customer experience and then, of course, even to reduce your greenhouse gas emissions. Now, while there's been a lot of discussion about sustainability, we continue to see growing interest in renewable energy and in improving the visibility and transparency of supply chains. Now we've added technology trends of artificial intelligence, which of course adds further complexity. Consider what effect AI could have on future products and industries. Now we're seeing tremendous change. And of course, it's just the beginning.

The important part here is that all of these long-term trends are dramatically increasing complexity at all levels of the value chain. They have led to fundamental changes in the EMS industry, driving the need for more capable global outsourcing partners with the expertise, the breadth and scale to support evolving products across multiple markets. We are one of the few companies that can actually help customers navigate this increase in complexity, build resiliency, and deliver on improving customer experience on a global scale. And the Flex strategy goes beyond just electronics manufacturing. It's about providing a fully integrated suite of manufacturing services to support our customer's product lifecycle. And we leverage our expertise across the industries we serve to give our customers the benefit of our collective knowledge to achieve a competitive advantage. This strategy means that we are more than just the sum of the parts as we create synergies that generate strong competitive barriers, increase customer affinity, and, of course, deliver profitable growth.

Now manufacturing services is our foundation. We're always focused on increasing our capabilities. Of course, we are driving greater efficiencies and we're ensuring we have the optimal global footprint. On this foundation, we're expanding our services, our vertical integration capabilities to serve more of our customer needs, and we're increasing our addressable market. And then to improve agility and efficiency, we're implementing our flexible automation platform that you can quickly reconfigure and reuse and deploy across all our programs. And our global network of integrated manufacturing and service locations, of course, increases resiliency and time to market. Now, you put all this together, our initiatives and investments in automation, the capabilities and the systems, they all achieve tremendous productivity gains. And that drives our margins, of course, and helps us prepare for the future.

Okay. So one of the themes you will hear about today is our differentiation in power and in compute. We've invested here because we saw fundamental changes in compute and the associated power requirements driven by the long-term technology transitions. What we did was we build extensive cross industry expertise and we're applying it to create capabilities and products and in multiple end markets, including cloud and automotive. And we're already in the market with Flex designed or co-designed solutions. So for example, Flex is the only EMS player that has a comprehensive data center power product portfolio. It extends all the way from the embedded products which function at the board and the rack level to our unique data center critical power offering with our Anord Mardix products. So you will hear more about our differentiation and cloud and in automotive from Michael and Becky in just a minute. We are very bullish on this opportunity.

Looking just at data center and automotive, we believe power and compute-based revenue will account for 40% of the total revenue for Flex by fiscal year 2029, so in the next five years. We believe the long-term opportunity for Flex is significant. The macro and the secular trends of course are in our favor. The markets we serve are large and there's just plenty of room to grow. Our suite of end-to-end services is creating tremendous customer stickiness, and it's expanding our available market.

And then our differentiated products and technologies and our capabilities are all giving us above market growth in targeted end markets. This combination is our winning formula for growth. As we continue to add more value to our customers, we are confident that we'll deliver increased revenue and margin performance for the years to come. So we're going to bring this discussion to life.

Our segment presidents are joining us today to walk you through examples of our end-to-end capabilities, our technologies and products. We'll start with Michael Hartung and he will show how our cloud data center offering and how we're truly differentiated in the marketplace. Michael has over two decades of experience in contract manufacturing and is the President of our Agility segment, which includes communications, enterprise and cloud, our consumer devices business and our lifestyle business unit.

And then Michael will be followed by Becky Sidelinger who'll show you how the cross-platform expertise in complex compute and power systems differentiates Flex in the automotive industry. Becky joined us couple of years ago and she has two decades of experience in industrial manufacturing and is the President of our Reliability segment, which, as you know, includes Automotive, Health Solutions and our Industrial business unit.

Now, I'll turn it over to Michael. Michael Hartung?

Michael Hartung

President-Agility Solutions Segment, Flex Ltd.

Thank you, Revathi. At our last Investor Day, we introduced you to our cloud capabilities. We talked about manufacturing services for data center racks, which fall under the CEC business unit, as well as embedded power products and critical power products, which fall under the Industrial business unit. We also said we grow our cloud business by about 20% per year for the next two years. I'm pleased to report today that our cloud business grew by twice the expected rate to about $3 billion in fiscal 2024. Looking back, we clearly executed on the strategy, gained market share with new and existing customers, and continued to innovate across our cloud focused product and service offering.

As you can imagine, we are really excited about the leadership role we're playing, the innovations we've developed, the compelling value proposition we've created, and the new opportunities we've unlocked. By now, we're all familiar with the massive growth of the cloud market, driven largely by advancements in generative AI, the continued adoption of cloud-based services, and the growing demands for data center power.

For a company focused on the data center like Flex, the implications are profound for our cloud business. This isn't a mere shift in technological trends. It's a pivotal moment opening a wealth of new opportunities. Flex has a comprehensive offering for the data center infrastructure market that includes both manufacturing services and power products. Our manufacturing services are focused on the mass deployment of vertically integrated data center racks at global scale from our cloud focused factories. This suite of services includes design, production, vertical integration, value added fulfillment and circular economy solutions. They help our cloud customers manage the complete product lifecycle of a fully integrated data center rack.

Although we're known for our manufacturing business, we also have two product businesses that utilize Flex proprietary technology to address escalating power consumption in the data center. Our embedded power business provides a broad range of products that help optimize power consumption at the board level and rack level. Our critical power business provides an array of power products that are tailored to improve energy efficiency and performance in the data center facility. Together, products and services provide grid to chip solutions that cover 80% of the available data center content and address some of the most challenging questions in the cloud market, such as manufacturing scale, heat generation, power consumption at the board, rack and facility levels.

One challenge in the cloud market is how to deploy data center infrastructure globally at a rate that keeps pace with the market's insatiable appetite for advanced computing that enables AI. Our foundational manufacturing services strategy is simply to combine as many services as possible into each opportunity. This approach helps our customers to create more resilient, sustainable and lower cost supply chains. It helps Flex create more durable customer relationships, increase market share, and supports margin expansion.

We've built on this foundation with a strategy that is curated for the cloud. This strategy enables our customers to launch data center servers, switches and rack products on time with quality and on budget, by calibrating product designs to the Flex production system in our cloud-focused factories. The core of our operations is built on a 50-year legacy of manufacturing excellence. Leveraging this heritage, our cloud-focused factories utilize customized advanced manufacturing, automation and test solutions that optimize the entire product flow of data center rack manufacturing.

Another point of distinction in our service offering is our ability to vertically integrate the data center rack. We fabricate sheet metal frames and enclosures. We design and manufacture one phase and two phase liquid cooling systems. And we incorporate our own private label component products. And there's more. Beyond simply shipping the rack to our customers [indiscernible] (00:26:29), our global services business provides value added fulfillment and circular economy solutions. This is another differentiator for Flex.

Our value added fulfillment capability enables us to consolidate manufacturing in lower cost areas to optimize cost, and regionalized distribution close to the data center to shorten lead times. Our circular economy solutions enable us to take back products from the data center for repair, refurbishment or recycling to help our customers achieve their sustainability goals by reducing the amount of products that go into landfills.

Given the macro trends driving regionalization and the evolving needs of our customers, our global services business is becoming an increasingly important part of our cloud solution and our overall flex value proposition. In fact, our global services business is already operating at global scale in 25 sites and 18 countries, and is growing above the corporate rate. It's important to reinforce that our complete suite of manufacturing services is included within our traditional EMS umbrella. They have been tailored for the cloud and our cloud-focused factories. And while each of these services is differentiated on its own, it's the breadth of manufacturing services that are already operating at global scale in every major theatre of operation that is truly unique to Flex.

Another key challenge datacenters are facing is the increasing demand for power density. A generative AI datacenter rack has a significantly higher number of CPUs and GPUs, which increases the power requirements on a typical rack from 16 kilowatts to 20 kilowatts today to potentially 250 kilowatts per rack clusters in the not-too-distant future. This increased power consumption requires innovative power solutions.

Flex is differentiated in the embedded power space through a combination of IP, engineered solutions at the board and rack level, and strategic relationships with our ecosystem partners. Our power shelf products are already acknowledged by our customers for market leading efficiency and we're working closely with market leaders to develop next generation solutions. Our capacitive energy storage solutions address power spiking related to GPU compute by combining leading battery management systems with a patented solution based on lithium capacitors. This innovative solution allows for several million charging cycles versus more limited charging capacity of a traditional cell technology.

Our power modules provide a broad range of scalable, board mounted DC to DC solutions that regulate power consumption of a CPU, GPU and custom processors. All of these embedded power products help data center customers solve the growing power density requirements. They enable greater efficiency, reduce latency and space and speed, time to market. At the facility level, data centers are faced with the challenge of satisfying increased power and uptime requirements, while balancing build times and construction costs.

Our product portfolio addresses critical power requirements and includes low voltage switchgear, PDUs and busways. Our end-to-end engineered solution includes customized design and dedicated project management from manufacturing through installation and service. Our power pods provide turnkey critical power solutions in a box, and serve as an alternative to traditional construction. They reduce complexity, deliver overall cost reductions, and ultimately accelerate power deployment. Through our world-class offering of products and solutions, we are powering data center customers through the AI revolution.

As we've pointed out, Flex covers 80% of the current data center content by providing manufacturing solutions for the rack, embedded power products at the board and rack level, and critical power products at the data center facility itself. The expected growth in racks and data centers, combined with the projected increases in power consumption, driven by accelerated computing, will require more integrated solutions. Flex is well positioned across the manufacturing and power spectrum to enable an end-to-end solution for the data center of the future.

Bringing it all together, we believe our cloud business will grow at 20% growth rate over the next few years, because Flex is uniquely positioned in the cloud data center market. Our comprehensive suite of manufacturing services that support the full product lifecycle, combined with our differentiated embedded power and critical power products, is unmatched in our industry.

Now, I will turn it over to my colleague Becky Sidelinger, who will provide more insight into how our cross-industry capabilities in compute and power are fueling our growth in the automotive industry.

Rebecca S. Sidelinger

President-Reliability Solutions, Flex Ltd.

Thank you, Michael, and welcome. Automotive is another great example where our cross industry expertise in advanced compute and power systems is driving new business wins and growth. In 2022, we spoke about the next-gen mobility aspect of our business, but to fully understand our opportunity in automotive, we need to look at both the drivers of the industry and the composition of our business. The automotive industry is seeing significant disruption, and it goes beyond just electric vehicles. Clearly, the adoption of electric vehicle and hybrid powertrains requires more complex power systems.

With our expertise in power electronics, we support both EV and hybrid platforms, including with products of our own design. And we expect both of these platforms to remain long-term drivers of our business growth.

Regardless of the powertrain choice between electric vehicle, hybrid or internal combustion engines, technology transitions and driver assist, safety and autonomy are increasing the electronics content per vehicle. And here is where it all gets interesting. All of these technologies are radically increasing the demand for real time compute power in the vehicle. This is driving consolidation of vehicle electronic control units, or ECUs, to streamline complexity, integrate vehicle systems, decouple hardware from software, and greatly enhance computational capabilities. We've all heard the term software-defined vehicle. The truth is it takes a lot of hardware to run that software.

You may have heard that cars are becoming more and more like edge data centers on wheel. This is not hyperbole. Our latest generation auto compute platform is liquid cooled with GPU powered servers in multi-blade rack configurations leveraging globally reusable building blocks. So, you see this is very similar to what Michael spoke about in cloud, where we offer an end-to-end solution to help cloud service providers meet the growing needs of the AI-driven data center. Now, you can see how our automotive business truly overlaps with our work in the cloud.

Of course, in the case of automotive applications, we have the additional complexity that everything must be designed and manufactured to automotive grade to survive in harsh environmental conditions. All of this increasing technology complexity is also changing the supply chain dynamics and creating opportunities for Flex to become an even more trusted partner. In addition to supporting Tier 1 auto suppliers, we are partnering directly with many of the leading auto OEMs. We also manage one of the largest and most complex supply chain networks on the planet, including our longstanding relationships with chipmakers, such as NVIDIA, STMicro, and TI. This is why we were able to help auto OEMs navigate the supply chain crises much better than they could on their own.

So, let's take a look at the three revenue categories that make up our total automotive business. I'll start first with compute. Compute platforms is the largest piece of the business accounting for just over 50% of our portfolio. These systems include control units, cyber secure gateways, and increasingly up-integrated domain and central computers. And it's important to note that the strong growth in these advanced technologies is agnostic to the powertrain. So, I want to be very clear about what this means. Whether the platform is an internal combustion engine, an electric vehicle or a hybrid, Flex is at the center of compute technology.

Power electronics is the fastest growing of our three pillars at over a 20% compounded growth rate. This group includes all the power electronic systems that drive EV and hybrid powertrains such as power inverters, converters, onboard chargers and battery management technologies, and many of these products are Flex designs. The balance of our automotive business houses specialty wiring, advanced actuators and lighting technology, and again, these products are agnostic to the powertrain.

We're providing more than just hardware manufacturing, from joint and full product design to much broader collaborative engagements. Automakers are investing in their own software and design capability, and our ability to support their broader ecosystem requirements with a flexible business model is a differentiator for Flex. On that point, we also differentiate from EMS companies with our design capability and we differentiate from full-service Tier 1 suppliers with our open and flexible business model, working with OEMs to design, jointly design or manufacture our customers' designs.

So, let's talk about how our design expertise is enabling growth. A great example is our partnership with NVIDIA on their DRIVE Orin system-on-a-chip that was announced in 2022 and highlighted at their recent GTC Developers Conference. We worked in advance with NVIDIA to design a hardware platform around this chipset, and then made it available to customers for their own application software development. This then led to multiple production programs based on a common platform building block, specifically focused on advanced driver assist. This is a great example of our role in the compute ecosystem using a Flex hardware design paired with an application software for complete solution.

Another example is in the EV power electronics space, where we have invested in design capability for DC/DC and onboard chargers. Our 800-volt high-voltage designs have been selected for multiple production programs based on our superior performance and cost. This design was developed with the latest silicon carbide technology and was featured at the Consumer Electronics Show in cooperation with STMicro. In this case, our role in the ecosystem is to provide a complete product solution, including both hardware and software. That technology that supports better dynamics while improving safety and autonomy will continue to evolve and continue to add further complexity to design and engineering, manufacturing and supply chain, and this trend benefits Flex as we work directly with auto OEMs to solve these challenges and move up the stack.

Our automotive business is very well diversified across geographies and OEMs. We continue to expand with new platforms. We are seeing steady increases in electronics content per vehicle and we expect all of this to drive growth well above the global light vehicle production forecast of roughly 2%. We expect our overall automotive business to grow at a high-single to low-double-digit CAGR over the next several years.

Today, Revathi, Michael and I spoke about longer-term technology transitions driving increasing compute and power requirements in multiple industries, and this certainly will fuel growth for our automotive business. This opportunity goes beyond just the electric vehicle transition. As you can see, we expect increasing demand for more advanced power and compute solutions to drive business growth through 2029.

With that, I'll turn it over to Paul. Paul?

Paul R. Lundstrom

Chief Financial Officer, Flex Ltd.

Thank you, Becky. Good morning, everyone. We've talked about the trends driving the industry, our focus areas for higher value growth and how we are capitalizing on these opportunities through our differentiation. I will talk about the positive implications to our longer-term financial framework, but first I want to take a step back. The strategy we set five years ago was to go after and win the right kind of growth, expand our services, and build on our operational excellence. Ultimately, this strategy is about solving complexity to drive new wins and build deeper relationships with our customers.

We expected this approach to create shareholder value through profitable growth, margin expansion, and lead to greater financial resiliency through the cycles. This has been tested multiple times over the last several years and we have clearly demonstrated that it is working. As David mentioned, we've moved Nextracker to discontinued operations, which gives you clean, multiyear visibility into our core business. Looking at how Flex has advanced over the last several years, we've executed on our transformative strategy to take advantage of long-term trends, focus on key end markets, and drive further efficiencies and operational excellence.

The underlying longer-term trends haven't changed, but this last year revenue growth was impacted by a significant shift in the macrocycle. But I want to pause here for just a moment, because there is a very important takeaway here, in fact it may be one of the most significant indicators of change this industry has seen in quite some time. In a year, when revenue was down 7%, margins still increased 50 basis points and EPS grew 11%. That is resiliency, and it's also the fourth year in a row we've seen double-digit earnings growth, a trend we expect to continue.

You've heard us talk before about maintaining a nimble operating model, so we can ramp up and ramp down quickly, and that we're hyperfocused on discipline and operational execution. That agility and discipline puts us in good position to manage through the cycle. This strategy is how we navigated the COVID challenges, the supply chain shocks, and now the current macrocycle and we're still delivering on our financial commitments. This is the proof that Flex has truly become a more resilient company and a leader in the next wave of the EMS industry.

We've always said our job is to be disciplined custodians of your capital and to focus on delivering long-term value to shareholders. That is exactly what you have seen over the last several years. Following our capital allocation framework that we outlined in 2022, we continue to invest for value creation and profitable growth by way of CapEx and opportunistic M&A, balanced with returning capital to shareholders.

Investing in high-value growth opportunities could mean organic or inorganic. As we invest, we look for advanced technologies and expertise to build on our core capabilities and to keep us at the leading edge. We believe there are always opportunities to further improve efficiency through investments like footprint optimization and by further integrating next-gen automation as Revathi discussed. We're making investments to continue building out margin-accretive opportunities through verticalization and value-added services.

Most of this investment is internal and from CapEx, and we maintain that around 2% of revenue is the optimal target to support our strategy. Should we choose the M&A path, investments would follow the criteria I just mentioned, and our team would be confident in the value creation potential. That said, meaningful M&A opportunities are typically few and far between, and as we look to the landscape today, we continue to believe our best investment alternative is in Flex stock.

And so, turning to the next page, for fiscal year 2024, stock repurchases totaled $1.3 billion, which was the largest one-year program ever for Flex. We took 42 million shares out of the count in FY 2024. In Q4 alone, we bought back north of $500 million and we will likely stay at that pace through at least Q1 as we continue to believe our intrinsic value is well above market that makes Flex's stock a great investment. You've seen us be active and opportunistic, balancing shareholder return with managing near-term working capital requirements through the cycle and, of course, protecting our investment-grade rating.

Turning to our financial outlook for Q1. For Q1, we expect revenue in the range of $5.6 billion to $6.2 billion, with operating income between $240 million and $280 million. Interest and other is expected to be around $53 million. We expect the tax rate to be around 19% for the quarter. All of that translates to adjusted EPS between $0.37 and $0.45 a share, based on approximately 415 million weighted average shares outstanding. For GAAP EPS, we expect between $0.11 and $0.19 a share.

As for the segment outlook, for Reliability Solutions, we expect revenue to be down mid-teens, similar to Q4. We're seeing continuing weakness in core industrial renewables and medical equipment. On the other hand, we are seeing stable demand in auto and strength in cloud power solutions. Revenue in Agility is expected to also be down mid-teens. We're facing headwinds from inventory digestion in comms and consumer-related end markets. However, we continue to see very strong AI-driven cloud spending.

Now, turning to our financial outlook for fiscal 2025. We expect Flex revenue for the year to be flat to down 3% year-over-year in the range of $25.4 billion and $26.4 billion. We anticipate adjusted operating margins between 5.2% and 5.4% as we continue to benefit from mix shift towards higher value programs and services and further efficiency gains. As tax rates increase globally, we do expect some headwinds on our tax rate likely landing in the 18% to 20% range. Finally, we expect adjusted earnings per share between $2.30 and $2.50, and we expect to generate at least $800 million in free cash flow.

Looking at the segments, it's a highly dynamic market, but we want to provide some visibility based on what we see today. For Reliability, we expect revenue to be in the range of down low-single digit to up low-single digits. We're balancing the uncertain timing for the recovery in core industrial and medical equipment with continued strength in power, automotive and also for medical devices. For Agility, we expect revenue to be flat to down mid-single digits. We're taking a conservative view on inventory digestion in comms and enterprise along with consumer spending trends. We also anticipate continued strength in hyperscale cloud.

As we did in 2022, we want to provide a longer term financial framework based on what we're seeing. Today, the team highlighted our strong value proposition with multiple drivers that will help us continue to drive profitable growth and margin expansion as you've seen over the last several years. For example, we talked about our opportunities with the combination of compute expertise and our power portfolio in cloud and automotive. We think those two alone can grow to about 40% of revenue through fiscal 2029. However, we also need to balance our current outlook for the long-term opportunities with the short-term market fluctuations we're seeing today. So, at this point, we're expecting a low- to mid-single digit revenue growth through 2027, largely based on the higher macro uncertainty over the next four to six quarters and then improving beyond that.

On our current path, we expect to reach a 5.8% to 6% adjusted operating margin by the end of fiscal 2027. So how do we get there? Well, we've talked about the three areas of margin contribution: productivity, mix and services. We discussed how we'll get continued long-term efficiency and productivity gains through the adoption of advanced automation technologies, including various forms of AI. Our margins will also benefit from continued mix improvement by growing in markets where we deliver more value.

We talked about our cloud power business in industrial, which is now $1 billion business growing at a 20% rate and with above corporate average margins. We talked about our cloud business in CEC. This is a little over $2 billion and also expected to grow at least 20% and is also typically margin accretive. So, our cloud revenue between CEC and power all in is $3-billion-plus, making it a sizable end market with attractive growth and margins. We are also seeing some networking, compute and storage solutions shift to cloud-based applications, but we're not even counting those here today.

We also talked about automotive. In FY 2024, it was $3.8 billion, also a margin driver, and we expect it to grow at a low- to mid-teens growth rate through 2027 and crossing through $5 billion as a business. Lastly, we mentioned our vertical and value-added services. These are areas of additional differentiation that drive customer stickiness and profitability. Combined, they contributed about $1 billion in revenue in FY 2024, above corporate growth and margin rates.

You roll all this up with continued buybacks, we expect adjusted earnings per share to grow in the low-teens through fiscal 2027. And we also expect strong cash generation at an 80%-plus adjusted free cash flow conversion rate on an annual basis. Again, this brings us back to one of the most important takeaways. Our strategy is working. Flex is a more resilient company, and we have and will continue to manage through the cycle and drive profitable growth, leading to further margin expansion, EPS growth and cash generation.

Before we begin Q&A, here's what's important to remember from today. We have aligned our portfolio strategy with strong, longer-term macro and secular drivers and are focused on large high-value markets such as cloud, automotive, healthcare, industrial and energy applications. We have created differentiation through a winning combination of end-to-end services and cross-industry expertise, which has positioned us well in multiple markets like the ones you heard us talk about today.

Michael told you about our cloud-integrated rack solution services, including GPU and compute for AI applications and we're the only EMS provider with our own comprehensive cloud power products from embedded to critical facilities with a portfolio that is truly grid to chip. Becky showed you how this same combination of power and compute is also driving growth in other industries, such as our automotive business.

Add to all of that our supply chain resiliency and our global footprint, we continue to improve our technical and advanced manufacturing capabilities, driving operational excellence and efficiency, and equally important, prepare us for the future. These competitive advantages have uniquely positioned us to capture growth and deliver profitable revenue with margin expansion and cash generation, ultimately, creating value for our shareholders and creating value for our many customers.

Now, I'd like to hand it over to Kyra Whitten, who heads up marketing, communications and sustainability and she's going to walk us through the Q&A. Kyra?

QUESTION AND ANSWER SECTION

Kyra Whitten
Senior Vice President-Corporate Marketing, Communications, & Sustainability, Flex Ltd.
A

Thank you, Paul. As a reminder, Q&A today will be through the event platform. You may submit your questions in the Q&A chat box on the lower right side of your screen. With that, let's get started.

Our first question comes from Steven Fox with Fox Advisors. Can you talk about how successful to date you have been in attracting vertical solutions and aftermarket services to data center rack programs in the past and whether you can drive that attach rate higher? And if so, how?

Revathi Advaithi
Chief Executive Officer & Director, Flex Ltd.
A

Kyra. I'll start and then, Michael, I'll turn it over to you. First, Steven, thanks for the question. I'll start by saying that we're really excited to share the story we did with you in terms of compute and power in the data centers, which, like Michael said in his presentation, is we're one of the few companies that can actually look at power products and the integration that it provides with compute. And we know that the future of the data center is all about the proliferation of the requirement of power, and we have a unique value proposition.

On top of that, what Michael talked about is the addition of all the services that we have end-to-end in terms of – and adding to our manufacturing services portfolio. So, really a great story there. Michael, I'm sure there's a lot more to add on that.

Michael Hartung
President-Agility Solutions Segment, Flex Ltd.
A

Absolutely. I'll build on your comments there because, as you know, we talk a lot about the role value-added services plays in enabling the growth across Flex, but in the data center in particular. So maybe I'll start by just, first, reiterating our strategy from a manufacturing standpoint for the cloud and that's simply to combine as many services as possible in each opportunity. And the reason I think that's important is that we have a consistent, concerted effort to look at how we can continue to increase our penetration into things like vertical integration and aftermarket.

When you look back, say, three or four years, the good news is that both of those elements of our business have grown at double-digit growth rate. And since that time, we've had a lot of penetration in both our cloud business, our customers, and in that market in particular. And there's no better example to give than the one that's been asked about the data center. So if you think back, what we talked about was, not only the scale and manufacturing and integrating the rack itself, but our unique ability to vertically integrate components of that rack. And it starts with our ability to fabricate sheet metal racks and enclosures. We also include our private label components, and we even integrate our embedded power products as well. So, vertical integration is a key enabler in the data center itself. But it doesn't stop there.

We also venture into the post-production market with our aftermarket services, in particular in our Global Services business, which is already operating at scale as well. We operate in 25 factories in 18 countries and that really does enable us to do two things. It enables us to attach value-added fulfillment capabilities, which really enables customers to lower their lead time, improve their flexibility. But maybe more importantly, it enables us to attach our circular economy solutions, which really help our customers achieve their sustainability objectives by bringing those same products back from the market for repair, refurbishment or recycling. So we really like the progress we've made so far and how we're positioned for the future.

Kyra Whitten
Senior Vice President-Corporate Marketing, Communications, & Sustainability, Flex Ltd. A

Thank you, Michael. Our next question comes from Samik Chatterjee with JPMorgan. Between auto and cloud, you're talking about $8 billion of revenue growth over the next five years. How should we think about the margin profile the $8 billion revenue translates at? And how do we think about the opportunities to increase margin run rate in these businesses?

Revathi Advaithi
Chief Executive Officer & Director, Flex Ltd. A

Yeah. Samik, thanks for the question. I will say that we're excited to share the information with you today in terms of the scale that our cloud and our automotive business are going to be in our overall portfolio. I think the significance of that is important for two reasons. One is the margin rate, as you asked in your question, right? So the margin rate is much better than the Flex average margin rates in both of these, data center and automotive. But I think it's even more important to talk about what drives that.

What drives that – the margin rate is the fact that the most intense problem we're solving today is the availability of power and the requirement of power in – whether it's a data center or how a car operates, right? And being in the middle of that, having products that actually solve for that is really, really important. So that gives us an important IP, an important technology vertical that we have that gives us much better margin rates.

In terms of the scale that Michael talked about, very few people can integrate that scale end-to-end, like he said in the previous answer, and that gives us a margin rate in terms of delivering that complexity that is much better than the Flex average rate.

But I think the important thing to walk away here for all of you is that power is the future. And we're in the middle of solving the compute power equation for both cloud and automotive, and very few companies can do that. So we'll definitely demand value for it and get value for it, and which I think puts Flex in a very unique position.

Kyra Whitten
Senior Vice President-Corporate Marketing, Communications, & Sustainability, Flex Ltd. A

Thank you, Revathi. Our next question comes from Mark Delaney with Goldman Sachs. Cloud is roughly $3 billion business. Can you speak to how margins compare in that business to the corporate average and how margins can trend longer term in cloud?

Revathi Advaithi
Chief Executive Officer & Director, Flex Ltd. A

I answered that a little bit, Mark, just now from Samik's question, but I also want, Michael, for you to add in more to this one. As I would say, overall margins are very favorable to the Flex average. So I just talked about that. But it's driven by technology and vertical integration that we provide. We believe that these margin rates are sustainable and only get better as we integrate more and more complexity into it. More importantly, as we solve for these challenging power problems, the margin rates get better. But overall, I would say it's the complexity of the portfolio that drives the margin. But Michael, what would you add to it?

Michael Hartung
President-Agility Solutions Segment, Flex Ltd.
A

Yeah. So, Mark, you got it right. The cloud business inside of Flex is operating at just over $3 billion. It's probably helpful to understand which markets are included in that $3 billion to better understand the margin profile going forward. So that $3 billion is roughly split between about $2 billion in our cloud business within CEC and about $1 billion in our power business within industrial. And as Revathi mentioned, that business operates at a margin structure that's above the corporate average. But the reasons for that, I think, are pretty important.

So when you think about the cloud business in particular, we talked about in our previous discussion the role of value-added services. Well, our penetration rate in our cloud business tends to be much higher in our value-added services, which props up our margin profile in the cloud business within CEC. And when you think about the industrial business, we're talking about two different product businesses that operate at product margins, the embedded power products and the critical power products. So given the split of business between products and services, we're pretty confident we can continue to deliver that sort of margin performance for the next few years.

Paul R. Lundstrom
Chief Financial Officer, Flex Ltd.
A

Yeah. Maybe I'll just add, Mark. First of all, appreciate the question. As you think about the building blocks for our margin expansion plan over the next few years, a 20% top line growth rate, at least from the cloud business, as Michael said, with better than average corporate margins, is going to help us mix up as we move closer to that 6% op margin rate out 2027.

Kyra Whitten
Senior Vice President-Corporate Marketing, Communications, & Sustainability, Flex Ltd.
A

Thank you all. Our next question comes from Ruplu Bhattacharya with Bank of America. Revathi, can you talk about how you are thinking about risk management in this environment? What are the areas that give you the most concern and how are you mitigating risk, whether that be in focusing on specific areas of investment or pricing or cost control? Are there areas of the platform which you are de-emphasizing?

Revathi Advaithi
Chief Executive Officer & Director, Flex Ltd.
A

Yeah. Ruplu, I'll start and Paul jump in. First, I'd say is, from an overall portfolio standpoint, we're comfortable where the portfolio is today. That being said, I think I've said this a few times before is that we are constantly improving our mix within our business units. That is our day-to-day job. And so there's always emphasis and de-emphasis the portfolio that continues to happen as a regular rhythm of the business. So I would say nothing more to add on top of that.

In terms of risk management, Ruplu, what we have shown over the last four to five years is the fact that we have a very thoughtful, proactive approach as we see the ups and downs that happen in the market. So whether it is going through COVID or after that, a supply chain crisis or now a slower growth environment, right, all of that require us to constantly think ahead and make sure we have the right attributes in place. That starts with our culture and that also ends with our planning processes of how we think of our plans.

So, in general, Ruplu, we're always conservative in terms of how we look forward. I would say our plans today for FY 2025 are built the same way, but that's all attributed to risk management, right? Because it is kind of murky in terms of the environment out there. And if you look at the revenue profile and things like that, you're hearing that from all our customers. We've built a conservative plan and we feel like the risk mitigation around contracts and inventory planning and thinking about our customers' outlook are all built into this forecast that we have given you. It's how we work every single day. And you've seen that in the results, right? And we've got the same kind of cadence built into our forward-looking forecast.

Paul R. Lundstrom
Chief Financial Officer, Flex Ltd.

A

I think the key point there is you've seen it in the demonstrated results over the last several years. There's been lots of risks. The supply chain shocks, COVID, the ups and downs of markets, and I think that we've demonstrated our ability to be resilient through the cycle.

Kyra Whitten
Senior Vice President-Corporate Marketing, Communications, & Sustainability, Flex Ltd.

A

Thank you. So, we have a follow-on from Ruplu. Paul, with respect to inorganic growth, how do you see opportunities for M&A and are there any focus areas?

Revathi Advaithi
Chief Executive Officer & Director, Flex Ltd.

A

Can I start with that, Kyra?

Paul R. Lundstrom
Chief Financial Officer, Flex Ltd.

A

Sure. Absolutely.

Revathi Advaithi
Chief Executive Officer & Director, Flex Ltd.

A

I would say that first is the areas that we're clearly interested in fall into the areas that you had, both Michael and Becky, talk about today. So, power, we definitely think that there are areas of power that we're interested in, in terms of technology that we'd like to add more to our portfolio. We really like where we are in terms of embedded power and critical power, but we always feel that the things that we could add to it as the future of power becomes more critical.

I would say in terms of value-added services, we're very interested in looking at more for our portfolio on value-added services. Similar around automotive, right. As you heard from Becky, we're competing across geographies, across OEMs in terms of winning more automotive business, and we really feel good about our product position within automotive, but there's always things we could add on. So, very, very targeted in terms of our view of where we could add M&A, but what Paul is going to tell you is that we're very focused on capital allocation, so.

Paul R. Lundstrom
Chief Financial Officer, Flex Ltd.

A

Yeah. Our posture on M&A really hasn't changed. Revathi pointed out a few of the focus areas. I think, in my prepared remarks a couple of minutes ago, I talked about the same. But if we go out and have some sort of – do some sort of M&A, you should be confident that it's a good fit. The team has high confidence in the financial model and investors will be happy. I would say our top priority right now probably isn't M&A. It's more stock buyback, given our current valuation. But as I told you over the last few years, the aperture is open. We have an active pipeline, but we're going to be very, very selective and make sure that the financial model would close. A good example of that would be Anord Mardix, which I think was an absolute homerun, thrilled with that, and if we can sprinkle in a couple other things over the next couple of years in a value creating way, then of course we'll do that.

Kyra Whitten
Senior Vice President-Corporate Marketing, Communications, & Sustainability, Flex Ltd.
A

Thank you, Paul. Our next question comes from George Wang with Barclays. Can you talk more about cloud customers, including diversification and concentration, and how should we look at cloud revenue linearity through the fiscal year 2025?

Revathi Advaithi
Chief Executive Officer & Director, Flex Ltd.
A

Yeah. So, I'd start off, and Michael, hand it over to you. I'd say Michael definitely should talk about what we don't include in cloud, because as usual, we're very prudent and conservative in how we think about things. And so, that's one thing. I would say in terms of diversification and concentration, I would say, we have one of the best portfolio in terms of products and customers in terms of cloud.

In linearity, I'd say we showed you the 20% growth that we've said through the next three to five years. We really feel good about kind of the next few years. We've seen the growth that – and we can see that in terms of our bookings and our ramps. But if anything, we'd say that, it will be fairly linear. And so, I don't think that it's going to be frontend loaded or backend loaded, I would say, the growth rates that we've shared with you. We feel pretty good about kind of the five-year run rate of it. But Michael, what would you add?

Michael Hartung
President-Agility Solutions Segment, Flex Ltd.
A

Yeah. I'll build on those comments, and maybe start where I left off with the last answer. So, first, reiterating what's in the business. And so, first, to Revathi's point, we've included our cloud business in CEC and our power business in industrial. Now, we probably could have made a case that there is large amounts of our portfolio that also have exposure to AI, but we decided not to include our 5G business, our communications business or our enterprise business.

Now, what's also important to think about is that, we're bringing both products and services to the marketplace, which really gets us into a wide variety of customer conversations, and it helps to point out a distinction in our offering, which is we actually have a lot of diversity in our customer base. We already have multiple engagements with multiple hyperscalers, and we also have engagements with multiple silicon providers. So, we think this diversity, we think this combination of products and services really does bode well for our future, and in terms of the second part of the question, how we're set up.

So, last time we spoke, we said we'd grow the business by, call it, 20% per year for the next few years. We shared with you earlier today that we've actually grown by almost twice that expected rate. We think we're in great position to continue that for the next few years. And so, for those reasons, we're really optimistic about where we think this cloud market can go. Maybe some things about how the – how strong the cloud business is today. First, the demand is holding up much better than some of our other markets, which is encouraging, but it hasn't really stopped there. We've had significant share gains with our existing customers. We've had a lot of new wins with new logos. And so that also bodes well to this in continuing appreciation of the work that we've done over the prior months. So, really excited about where we're headed in this business.

Revathi Advaithi
Chief Executive Officer & Director, Flex Ltd.
A

And the only thing I would add to that, Michael, I would say, in terms of diversification, so we've multiple hyperscalers, right, that's important. We have a multiple co-lo customers, because that is also important, because if you think about our power portfolio, that touches the value chain end-to-end also. So, in terms of diversification, it's very diversified. And then, importantly, there were multiple silicon providers, right. And if you think about also the future of kind of power and compute that we talked about, the integration of cooling products, power products into vertical integration of the racks really drives that diversification. So, it's not just in hyperscalers, but it's also in co-los, it's with silicon providers. So, highly diversified, and I'd say we've given you a prediction in terms of where it goes. I said I feel very good about kind of the linearity of it, but as usual, we're always thoughtful in terms of prudent guidance.

Kyra Whitten
Senior Vice President-Corporate Marketing, Communications, & Sustainability, Flex Ltd.
A

Thank you, all. Our next question comes from Mark Delaney with Goldman Sachs. Margins have been resilient despite macro headwinds. Has there been anything that is more temporary in nature, helping keep margins stronger? And if macro headwinds persist, do you think the improved margins can be sustained? Similarly, can you talk on price/cost, and how that is trending in FY 2025 versus FY 2024?

Revathi Advaithi
Chief Executive Officer & Director, Flex Ltd.
A

Do you want to – yeah.

Paul R. Lundstrom
Chief Financial Officer, Flex Ltd.
A

You want me to start on that one, and if you need to clean it up a little bit, you can clean it up. So, a fair amount to unpack there, Mark. So, maybe just talk about the first part of your question, which was has there been anything sort of unusual keeping margins up. I would say, over the last couple years, it's probably been the opposite. If you think about all of the inflation pass-through, which has really boosted the top line without any drop-through, that has sort of pushed margins down. And I think as we move forward and we saw a little bit of this last year, those inflation pass through start to come down. That means the bottom line doesn't change, but the top line does come down a little bit. That actually helps the margin rate.

If I think about the fourth quarter, fantastic margins in the fourth quarter, 5.4%. I'll just remind you that a couple of years ago, we talked about Flex and broadly the industry at some point getting to 5% operating margins. Very pleased to see the 5.4%. I would say we blew right through that 5% goal here in the fourth quarter. What drove that? There were a couple things in there that were quite good. One was mix. Two, we had a number of cost actions. There was some restructuring benefit that we had in the fourth quarter that helped with margin rates.

We also had one – this is a little nuanced, but if you look at our CapEx spending over the last several quarters, it stepped down fairly significantly in the fourth quarter, just based on the ebb and flow of ramps. And as I think about CapEx spending, we capitalized what we can in full compliance with GAAP like everybody else does, but some of those costs specific to ramps end up going through the P&L as period costs. And so, as ramps were lower in the fourth quarter, some of that cost good news drops through.

And so, margins, again, fantastic in the fourth quarter. And now as I look sequentially from Q4 to Q1, mix isn't quite as good, a little bit less of that OpEx, CapEx, which we saw in the fourth quarter as CapEx does come back up as we move into Q1 and Q2 just to support ramps we're expecting in the back half of the year. But as I think about margins over time, year on year, the first quarter is up 20 basis points versus where we were a year ago. And what we expect as we move forward is continued progression on margins because of, one, that inflation pass through comes down. Two, really strong mix of the business and we talked about some of the drivers of that right now in cloud and automotive, those businesses look great. And given the IP that Revathi talked about, that helps with margin that allows us to mix up. And then, the third would be – and this is just because, look, we're a huge manufacturing company. We have a large geographic footprint. It's our job to focus on productivity, and we do that all the time. And so, I do expect continued productivity as we move through the balance of 2025 and on.

Revathi Advaithi
Chief Executive Officer & Director, Flex Ltd.

A

I think you've said it well. I wouldn't not anything other than four, five years ago, we were talking about, hey, can you get past 3%, right? Today, we're talking about can you get past 6%. And like Paul said, we were well north of 5%, 5.4% in Q4. But how we get there is important, right? So, mix will play an important role. We talked about 40% of our revenue coming from data center and automotive, which makes us up significantly for us. So, that's one thing.

And then second is, there's so much to be done on productivity and efficiency, the world is changing with robotics and AI in the factory floor. We're super excited about the benefits we're getting from that. So, feel very comfortable by the margin profile, the 6-plus percent, and we feel we're well on our way to that.

Kyra Whitten
Senior Vice President-Corporate Marketing, Communications, & Sustainability, Flex Ltd.

A

Thank you. Our next question comes from Steve Barger with KeyBanc. For Auto, do you have relationships with the primary OEMs and will growth come from seeing higher content per vehicle and higher unit volume? Or are there market share wins to come as well?

Revathi Advaithi
Chief Executive Officer & Director, Flex Ltd.

A

It's all yours, Becky.

Rebecca S. Sidelinger
President-Reliability Solutions, Flex Ltd.

A

Thank you for the question, Steve. For Automotive, the answer is yes, we do have relationships with the primary OEMs and OEMs are coming to us based on our deep design expertise in power and compute. And I spoke earlier about the flexible design model. So, we can design for OEMs, we can jointly design with them or we can manufacture their designs. And all of this has resulted in a strong pipeline in Automotive. I will also add that we do partner with Tier 1s as well. Where there is a benefit for Flex in the partnership with the Tier 1 is where we can be faster and more efficient in production, and that allows the Tier 1 to make investments in other areas of the business.

The second piece of the question that I'll address is the content per vehicle. So, keep in mind that our Auto portfolio is very well-diversified across powertrain types, electric vehicle, hybrid, internal combustion engine, well-diversified across all three of those, and we're well diversified across autonomy levels. You couple that with the broad breadth of our portfolio, so our portfolio includes compute, it includes power, lighting, actuators, wiring. All of that content across all of those platforms is what allows us to grow. And yes, we will see content gain as a result of that. So, that translates to about an average content per vehicle of roughly $1,000 per unit. If you take everything in the portfolio that you can apply to a vehicle, that would take our content well north of $4,000 per vehicle.

Revathi Advaithi
Chief Executive Officer & Director, Flex Ltd.

A

And I'd say, Steve, that, like Becky said, comes from content per vehicle, comes from market share gain because we're one of the few EMS providers that has a product portfolio that can design and jointly design with our OEMs. So, that's a fantastic place to be. So, we're again in a very unique position in Automotive, and we can see that the results from our bookings and our growth coming from Automotive that this will just continue as we keep building on our platform.

Kyra Whitten
Senior Vice President-Corporate Marketing, Communications, & Sustainability, Flex Ltd.

A

Thank you, both. Our next question comes from George Wang with Barclays. Can you talk more about the potential impact from the consignment model in cloud, which might be margin accretive? Can you also provide color on margin profiles for power and DC racks?

Revathi Advaithi
Chief Executive Officer & Director, Flex Ltd.

A

Michael?

Michael Hartung
President-Agility Solutions Segment, Flex Ltd.

A

Sure. I'll take that one. First, we have a variety of different business models inside of Flex with a number of different customers. Consignment happens to be one of those business models and yes, it is in place with our cloud customers. Now, we've taken that consignment model into consideration in how we've run and how we forecast the business. So, [ph] when we were before (01:19:01) you last time, we knew consignment was part of the model and we made a prediction on how we would grow that business in the neighborhood of 20% per year, and we more than doubled that result. So, we feel like we've got a handle on the impact of consignment in the business, and it's been taken into consideration in our future projections.

Just as a quick reminder, consignment has a headwind effect on pipeline revenue, but doesn't have an impact in bottom line profit dollars. So, yes, margin does climb as a result of consignment. But again, all of that has been factored into both our results and our projections.

On the second half of your questions, in terms of the margin profiles, I'd consider the power products that have a different margin profile than the DC racks per se, and let me explain why. So from a rack standpoint, that's really part of our EMS umbrella. So, we generate above average margins compared to the corporation, but it's still at an EMS level. It tends to be elevated because we do have a high penetration of value added services. Again, we fabricate our own sheet model, we incorporate our private label components, and we also include some of our other products into that integration. From a power standpoint though, we're operating a product business that comes with product level margins. So there are little bit different profiles, but both operating at well above the corporate average.

Revathi Advaithi
Chief Executive Officer & Director, Flex Ltd.

A

Yeah. And the only thing I would add to that would be to say, in the vertical integration of racks, as complexity increases around things like cooling designs and all of that, those are all – they all tend to be margin accretive because it's complexity that you're integrating in, on behalf of your customers, right? So, having your own reference design and being able to integrate that in requires a different margin profile.

On power, you know, in embedded power, there are not many like direct competitors in terms of who we work with. And we work directly with the silicon providers and the data center folks, I would say, in terms of critical power and embedded power put together. There are other companies that you can compare margin profile with. I'd say the like, the likes of Vertiv, so we operate more in that level. We don't publicly tell you what we do, but to give you a feel for where the margin profile of that business would be.

Paul R. Lundstrom
Chief Financial Officer, Flex Ltd.
A

Maybe just a couple of quick comments on revenue to George, and also to tie back to Mark Delaney's question a couple of minutes ago about margin and margin rates. As I think about the full year guide for FY 2025, which is the midpoint down about 3%, you should think about two factors. One, what Michael just said, we do have some top line headwind from more consignment. I would peg that it maybe 2 points. We also have headwind from the top line from the inflation pass-through, which I would peg at probably 3 points. So, between those two, that's about 5 points of sort of artificial top line headwind. And so, as I think about sort of the organic performance of the business at the midpoint, we're up a couple of percent.

Kyra Whitten
Senior Vice President-Corporate Marketing, Communications, & Sustainability, Flex Ltd.
A

Thank you. Our next question comes from an investor. How much share repurchase is embedded in the FY guide of $2.30 to $2.50 per share? And what is the expected tax rate for the full year?

Paul R. Lundstrom
Chief Financial Officer, Flex Ltd.
A

Sure. So, maybe just quickly on buybacks. So, I'll just give you the straight answer and the straight answer on share count for the full year, it's 400 million [shares] is what we're assuming. As I think about what happened as we went through Q4, stock buyback was north of $500 million. We expect to continue that cadence here through the first quarter. And so, that should provide some meaningful tailwind as we move into the balance of the year. So, about 400 million [share count].

And then as for the tax rate question, I don't love the question because I don't love the tax rate. But right now, 18.5% or thereabouts is kind of what we're thinking for the full year, which is meaningful headwind year-on-year. And so one would be right, your congressman; two would be – this is just how it is. I think all big multinational companies over the last few years have been talking about – in the tax landscape, they call it BEPS 2.0, but it's what it really is global minimum tax rates. And so if I think about specific examples, a 15% floor in a country like Hungary where we've historically seen 9%, as you mix up in those lower tax jurisdictions that used to help now doesn't really matter because those tax floors are more like 15%. So it is a little bit of pressure on the rate. But what I'll just say is we manage it as best we can, like we have over the last many, many years. And I sort of view it as a non-operational item.

Revathi Advaithi
Chief Executive Officer & Director, Flex Ltd.
A

And we're delivering double-digit EPS CAGAR with that tax rate [indiscernible] (01:24:06)

Paul R. Lundstrom
Chief Financial Officer, Flex Ltd.
A

That's a...

Revathi Advaithi
Chief Executive Officer & Director, Flex Ltd.
A

So I think that's...

Paul R. Lundstrom
Chief Financial Officer, Flex Ltd.
A

...great point.

Revathi Advaithi
Chief Executive Officer & Director, Flex Ltd.
A

...an important takeaway.

Paul R. Lundstrom
Chief Financial Officer, Flex Ltd.
A

Yeah, it's a great point.

Kyra Whitten
Senior Vice President-Corporate Marketing, Communications, & Sustainability, Flex Ltd.
A

Thank you. Our next question comes from an investor. How much inventory do you have left to unwind, and how much cash are you going to keep on the balance sheet?

Revathi Advaithi
Chief Executive Officer & Director, Flex Ltd.
A

See, my answer to this always is – to Becky and Michael is we have too much inventory. But you heard me say that time and time again, but we've done a really fabulous job of starting to unwind inventory. So I will admit that. But Paul, you want to add to this?

Paul R. Lundstrom
Chief Financial Officer, Flex Ltd.
A

Yeah. I mean, I think everybody knows the history on inventory, the whole industry saw inventory growth. We peaked out back – middle of our FY 2023. But what we've seen since then is meaningful improvement. I think you look year-on-year, our March 2023 to our March 2024, we dropped by $1 billion, $1.2 billion. And so I'm very happy with that. I'm also happy with the performance just sequentially this past quarter. The December quarter to the March quarter, we dropped another $400 million. And so, I like the momentum there. But like Revathi, we believe that inventory is still too high and that there is ample opportunity to continue to improve that.

To sort of give you some perspective on that one, in December, I think our inventory days net of working capital advances was something in the order of 74, that improved this past quarter to 70, but that's still a 10 to 12 day opportunity. So meaningful inventory can come off the balance sheet. We just need to make that happen. In terms of cash to run the business, which was the second part of that I think, we don't need $1 billion, [we don't need] $2.5 billion, which is about where we're sitting today, maybe a little under that, we need $2 billion or less. And we have and we'll continue to put that capital to work, as you've seen us do the last couple of quarters. Priority one is stock buyback. Of course, we'll continue to fund the business internally. And if there's any sort of M&A, as I mentioned, we'll, of course, have an open aperture to that. But right now, the priority is stock buyback.

Kyra Whitten
Senior Vice President-Corporate Marketing, Communications, & Sustainability, Flex Ltd.

A

Thank you. Our next question comes from Samik Chatterjee with JPMorgan. For autos, given the focus on power, how does the moderating EV protection ramps in the out-year influence your view on content per vehicle long term? And can you also talk about the customer base diversity between Western OEMs and Asian OEMs?

Revathi Advaithi
Chief Executive Officer & Director, Flex Ltd.

A

So I'm going to hand that over to Becky. But one thing I'd say is I think Becky said this a couple of times in her pitch and in the Q&A is there's one takeaway on auto that would be great for everyone to have is that really our product portfolio is agnostic of EV or hybrid or ICE, right, so – and that puts us in a really unique position in terms of how auto is set up for growth. So Becky?

Rebecca S. Sidelinger
President-Reliability Solutions, Flex Ltd.

A

Yeah, I'll build on those comments, Revathi. So first I'll say that our customer base in automotive is very well-diversified across customers, across OEMs, across the regions. And I mentioned that we're very well-diversified across the platform type, electric vehicle, hybrid, ICE. So if we think about how the EV market is impacting this business, I would say first, it is growing, but maybe just at a slower pace than some people might have anticipated. But what I want you to remember is that many OEMs now are swapping investments or shifting investments into hybrid platforms to bridge the full EV transition. And our power solutions are completely independent of whether it's a hybrid or whether it's an electric vehicle. So that benefits our power solutions regardless.

The other important point that I'll make here is that the vast majority of our portfolio, so compute, wiring, actuators, all of this stuff I mentioned earlier, that's completely agnostic to all platforms. So whether it's an EV, whether it's a hybrid or whether it's an ICE engine, all of that content will apply and we will continue to expand in the market.

Kyra Whitten
Senior Vice President-Corporate Marketing, Communications, & Sustainability, Flex Ltd.

A

Thank you. Our last question comes from Mark Delaney with Goldman Sachs. Flex's guide implies a back-half weighted FY 2025. What is driving the improvement from the fiscal first quarter to reach the full year outlook? And how much visibility does Flex have into the demand needed to achieve this?

Revathi Advaithi
Chief Executive Officer & Director, Flex Ltd.

A

Okay. How about we start, Michael, with you talking about your business and then Becky yours and then we'll get to Paul and me.

Michael Hartung
President-Agility Solutions Segment, Flex Ltd.

A

Sure. Sounds good. So I'd say first to start off with, expectations are fairly much in line with what we've seen for the past few quarters. So we're starting off Q1 with some normal seasonality, so a little lower starting point as usual. But we are seeing a lot of things progress in the market that give us a lot of optimism. So when you think about the business, think about first-half, second-half question. The good news is we're really not banking on a big market recovery in the second half. If you think about what's happening in our businesses across Agility, first starting with the data center and what we've done there, we're seeing significant share gains with existing customers. We're seeing a lot of new business [indiscernible] (01:29:40) with new logos. And it's not just contained to the data center, we're actually seeing similar progress in our lifestyle business with share gains and new business wins with new logos. So the second half of the business, again, isn't banking on a lot of in-market recovery, but we should start to see the full benefit of those new business wins with new and existing customers.

Paul R. Lundstrom
Chief Financial Officer, Flex Ltd.

A

Yeah. It's good.

Revathi Advaithi
Chief Executive Officer & Director, Flex Ltd.

A

Becky, reliability.

Rebecca S. Sidelinger
President-Reliability Solutions, Flex Ltd.

A

On the reliability side, I'll walk you through the three pieces of the business, industrial, auto and health, and I'll start with industrial. So renewables and some pieces of our core business, I think, you know, are soft. We do see weakness in those areas and that's predominantly driven by interest rates. But we are still ramping production in renewables in the US to take advantage of the tax benefits. And remember that we also work in EV chargers, smart metering and [ph] grid connect (01:30:31). So renewables, energy efficiency, grid transformation, all in our wheelhouse and we will continue to see this as a growth market.

The second point that I want to make on industrial, remember that the embedded power and critical power solutions Michael discussed earlier, those actually sit in industrial and we're seeing very strong demand for power driven by AI and we're seeing it from the board level to the data center power level. We are very differentiated in our power technology, Michael spoke a lot about that earlier today, plus having the ability to provide solutions from the device all the way to the data center power really differentiates us, and that's why we're going to continue to win in the industrial space.

I'll pivot to automotive. And first, I'll start with we will see growth in FY 2025. We've built a really strong pipeline in automotive. We're coming into FY 2025 with a couple of strong years and bookings. And so we're going to see those programs ramp through FY 2025 plus additional content gains. And I just reminded you the vast majority of our auto portfolio is agnostic to the powertrain. So, regardless of how that plays out in the market, we're going to continue to grow there. The last point that I'll make in automotive is our deep design expertise in both compute and power along with a flexible business model that I discussed earlier, we can design for our customers, we can jointly design, we can manufacture our customers' designs. This drives higher value, higher margin, customer stickiness and wins.

And then, the last piece of the market I'll touch on is health solutions. So there's two pieces that – two large pieces to the health solutions business, med equipment and med devices. In the med equipment business, we are still seeing some softness, and that's predominantly driven by two things. I would say, a little pressure hospital CapEx and some overpurchasing during the pandemic related to lab equipment, particularly high-end fluid analytics. But remember that hospitals continue to prioritize equipment that drives productivity, and we do play in that space. Our med device piece of health solutions remains very strong. And as we continue to see advancements in digital technologies, some other form factors and chronic disease care, we're going to continue to see the med device space grow.

And then, the last point that I'll make in the longer term for health solutions, as we look out in the future, those outsourcing trends of our OEMs, network optimization opportunities, those are huge opportunities for Flex to continue to gain share and our pipeline really remains strong and healthy.

Paul, what would you say?

Paul R. Lundstrom
Chief Financial Officer, Flex Ltd.

A

Well, I think you covered the end markets well. And I'll sort of jokingly say I'm confident because Becky and Michael are confident. I think they have it well under control.

I'll also say, look, the comps get quite a bit easier as we move into the back half. Nothing – like Michael said a couple of minutes ago, nothing has materially changed from what we talked about back in October when we saw a little bit of pressure. But that pressure we saw was specifically in Q3 and Q4 of last year. And so comps definitely get easier.

Mark, your question was more about demand. But I'd be remiss to not just talk about the rest of the P&L, really quickly here since we're talking about 2025. We have a really strong track record of productivity improvements. And I would say, at this juncture, we have pretty good line of sight to our margin targets, certainly for 2025, but also beyond. And so I'm comfortable with where we are there. And then, also, just say, purely from a capital allocation standpoint, we will have continued share count tailwind as we move through 2025. So overall, I feel pretty good about our guidance.

Revathi Advaithi
Chief Executive Officer & Director, Flex Ltd.

A

Yeah. So maybe I'll just wrap it up, Mark, with your question, and then wrapping up the entire session today is – let me kind of talk about FY 2025 a little bit and then overall. First is on FY 2025, I think you heard a very clear answer from Michael and Becky in terms of how we're thinking about end markets. We spend a lot of time in terms of predicting our customers' forecast, looking at exactly what happens in the channel, and all the way through the value chain.

So I feel fairly good in terms of how we're thinking about the year. And in general, we tend to be somewhat thoughtful and prudent in terms of our guide. So we definitely have all that baked in, feel very good about kind of margin and EPS targets guidance that we're giving you. I feel like we're very confident with what we're driving in overall efficiency and mix change that we really will get to that. So feel really good about our FY 2025 overall guide, even in the midst of kind of some conversation about our end markets and how our customers are doing and all of that. So feel really good about FY 2025.

But let's step back and talk about kind of the three-year outlook, the five-year conversation we just put in front of you. What we're talking about is that Flex stands in this unique position of being differentiated as a very good, strong global EMS company, and at the same time, being in the middle of technology trends that are happening, particularly around power and compute in amazing verticals like datacenter and automotive, right?

So we're in this unique position of being an EMS company in certain areas and a product differentiated company in certain areas, particularly around power. And the secular trends are in our favor in those end markets. We talked about 40% of our revenue in five years coming from these two critical areas with amazing differentiation also in the [ph] wrap (01:36:23) of the value added services, which is everything from fulfillment to aftermarket care that we are providing.

So I would walk away from kind of this three-year conversation that we're having, thinking that Flex is making this unique transition of being the world's best EMS company, but at the same time, bringing critical, important technology trends that puts us in a differentiated position with certain product companies. And we feel really good about the implications of that to our long-term guide, which is we've talked about 6%-plus margin, which we should get to, I would say, and definitely the low EPS CAGR – double-digit EPS CAGR that we talked about. So feel really good about kind of the three-year guide. Most importantly, we feel very good about our team and what we have delivered so far.

So thank you for your time and look forward to our conversation.

Kyra Whitten

Senior Vice President-Corporate Marketing, Communications, & Sustainability, Flex Ltd.

Yes. So a replay of today's webcast and presentation materials will be available on our Investor Relations website shortly. Thank you all for joining us to learn more about Flex and the opportunities ahead. We look forward to seeing you over the next few months at upcoming conferences, including JPMorgan and BofA, and we will also be at Barclays in London. Thank you all so much. And this concludes our event.

***Editor's Note: Texts in brackets were added as a request by the Company to provide clarification of the speaker's statement.