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Flex Ltd. (FLEX)

Q1 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, and thank you for standing by. Welcome to Flex's First Quarter Fiscal 2024 Earnings Conference Call. Presently, all participants are in a listen-only mode. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] As a reminder, this call is being recorded.

I will now turn the call over to Mr. David Rubin. You may begin.

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

Thank you, Jenny. Good afternoon and welcome to Flex's first quarter fiscal 2024 earnings conference call. With me today is our Chief Executive Officer, Revathi Advaithi; and our Chief Financial Officer, Paul Lundstrom. Both will give brief remarks followed by Q&A. 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 our corporate website. As a reminder, 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 our 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. Lastly, please note, unless otherwise stated, all results provided will be non-GAAP measures, and all 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 again on the Investor Relations website.

Now, I'd like to turn the call over to our CEO. Revathi?

Revathi Advaithi
Chief Executive Officer & Director, Flex Ltd.

Thank you, David. Good afternoon, and thank you for joining us today. As we move into our new fiscal year, we continue to make progress on our long-term strategy and deliver consistent results. Starting with our fiscal Q1 results on slide 4, overall, it was another solid quarter. Revenue came in at $7.3 billion, which is flat with last year's exceptionally strong Q1. Adjusted operating margin came in at 5.1%, and we delivered $0.57 of adjusted EPS. On July 3rd, we completed a follow-on offering for Nextracker. We still own about 51% of the company, but this marks yet another significant step forward.

Now turning to slide 5. Now, looking at core Flex fundamentals, we continue to navigate the dynamic macroenvironment with trends in the current quarter, relatively in line with our expectations. Consumer-facing markets remained soft from several factors, including higher interest rates and lingering post-COVID spending normalization in a few areas.

As we indicated last quarter, we also experienced some slowing in enterprise IT. But so far, it is performing to our prior expectations, and we continue to monitor demand indicators. On the other hand, we also faced a difficult comp this year in CEC, after it grew 30% last year. However, we continue to see strength in most of our secular-driven markets, and that's one of the benefits of having our well-diversified portfolio.

There's a lot of hype around AI right now. Maybe I can help separate a little fact from fiction, at least for what it means to us. We all know that the compute and power requirements of generative AI are highly intensive. This has led to change in technical requirements in the data center. From a manufacturing perspective, these changing needs are creating new opportunities. I should say, however, this has been the trend for a little while now, and it's already driving some of our business.

In CEC, we've talked about share gains driven by our bespoke cloud offering based on our unique design, vertically-integrated manufacturing and value-added fulfillment solutions. That has what helped drive triple-digit growth in our cloud business last year. These same capabilities have led to additional wins, including one ramping in the back half of this year.

With our expertise in power, we have developed a new power module solution which, for example, is suited to the needs of the more intensive GPU-based computing, and we are seeing strong customer adoption here. And of course changes in the cloud core design means changes to critical power configurations and that's what's driving additional conversions. It's safe to say, cloud technical needs will change as applications evolve over time. We have a highly adaptable platform, operating at scale, so we continue to be well positioned to capture these opportunities.

Now switching gears a little bit, healthcare trends remain intact. Elective procedure demand is strong and hospital CapEx is steady. We're experiencing some slowing in medical equipment related to life sciences, but this appears largely a result of normalization after an extended period of exceptionally strong demand for testing products from the pandemic.

Now looking at the automotive space, our EV and ADAS customer demand remained strong. Technology transitions are driven by important long-term trends, and we have built a business based on customer and geographic diversity. As our automotive business makes its way towards $4 billion in revenue, we're adding value on multiple levels to drive deeper and higher valued engagements. Our next-gen mobility bookings continue to grow. That's building on our momentum from record bookings from the last fiscal year. All of this comes from our proven design and engineering capabilities, our multi-disciplined technology expertise and decades of experience with the unique demands of the automotive industry.

Now, another important secular trend from which we're all benefiting is the global renewable energy transition. We're currently ramping both micro inverter and EV fast charger production in the US, and these are just two examples of how well we are positioned to help enable the global shift to renewable energy.

Last year, our renewables-related hardware revenue was just over $1.2 billion within our $6.5 billion industrial business unit. We expect renewables to grow again this year with improving long-term prospects as the rules and benefits of the IRA are finalized and fully understood. Again, having a diversified portfolio from a product, customer, and geographic perspective is an important attribute to managing through the cycles and delivering consistent results over time.

We continue to believe the fundamentals of outsourced manufacturing are strong and we remain very optimistic about our future. Our focus on providing a wide range of manufacturing capabilities and services, where our customers need them across the globe is our competitive advantage. By leveraging our core capabilities and capitalizing on the long-term secular growth drivers, we will continue to drive value creation in the years to come.

With that, I'll turn it over to Paul to take you through our financials.

Paul R. Lundstrom

Chief Financial Officer, Flex Ltd.

Okay. Thank you, Revathi. I'll begin with our first quarter performance on slide 7. First quarter revenue was $7.3 billion, flat year-over-year against a difficult comp and with some macro-related slowing. Revenue was down 2%, sequentially, which is in line with typical seasonality. Gross profit totaled $614 million and gross margin came in at 8.4%. Operating profit was $377 million, with operating margins at 5.1%, improving 60 basis points year-over-year. Earnings per share came in at $0.57 for the quarter, that was up 6% and includes $0.06 of headwind from Nextracker non-controlling interest.

Turning to our first quarter segment results on the next slide, Reliability revenue increased 11% to $3.3 billion. The growth was driven by continued momentum with strong secular trends, such as next-gen mobility, renewables and cloud critical power. Operating income was $165 million, up 12% and operating margin for this segment improved sequentially to 5% as production volumes increased on ramping programs, and as we navigated labor inflation and lingering semiconductor disruptions. In Agility, revenue was $3.6 billion, down 10% as expected due to a combination of tough comps, continued weakness in consumer end markets, and some softness in parts of enterprise IT.

Operating income was $146 million, down 14%, but focused execution and strong cost management helped maintain operating margins at 4.1%. Finally, Nextracker revenue came in at $480 million, up 21% year-over-year. Operating income at Nextracker was $82 million, more than double what it was last year, delivering a solid 17.2% operating margin. Moving to cash flow on slide nine, inventory improvements continued into Q1, with total net inventory decreasing slightly in the quarter. We're seeing signs of recovery; however, we continue to expect inventory will be slow to unwind. Q1 net CapEx totaled $156 million on target at 2% of revenue.

We expect similar total investment levels for the full fiscal 2024 as we continue to invest in future growth, as well as technologies such as advanced automation and machine learning solutions. These investments are important to drive continued optimization and agility with increasingly complex products and changing labor markets. Free cash flow was an outflow of $150 million, driven by the timing of our business, along with reductions in working capital advances and increased investments in CapEx. As previously indicated, we expect cash to be back half weighted to progressively improve through FY 2024, and we continue to expect free cash flow to be $600 million or more.

In line with our capital allocation priorities, we bought back $197 million worth of stock in the quarter. On that note, I'll quickly remind everyone that the Nextracker follow-on offering closed on July 3, after our quarter end. So while we received net proceeds of $495 million, it was not included in our final cash balance for this quarter. Although we continue to maintain a strong cash position, and as I mentioned last quarter, we have no intention of carrying this level of cash indefinitely. As we have consistently demonstrated over the last several years, and we have and will continue to allocate capital in the best interest of our shareholders.

Please turn to slide 10 for our segment outlook for the fiscal second quarter. For Reliability Solutions, we expect flat to up mid single-digit revenue growth for this segment and continued growth in our end markets, albeit at a more moderate pace. Revenue in Agility is expected to be down mid single to low double-digits, with weakness in the consumer end markets affecting both lifestyle and consumer devices. CEC will be impacted by comms, infrastructure and enterprise IT spending adjustments ahead of our planned cloud ramps in the back half of the year. So far, the deceleration is consistent with our projections.

On to slide 11 for our quarterly guidance, we expect revenue in the range of $7.3 billion to $7.7 billion with adjusted operating income between $370 million and $400 million. Interest and other is estimated to be around $52 million. We expect the tax rate to be around 13% for the quarter, and all that translate to adjusted EPS between $0.55 and $0.60 based on approximately 453 million weighted average shares outstanding. This guidance includes the impact of approximately $0.06 to $0.07 of non-controlling interest expense resulting from the Nextracker IPO. Looking at our full year guidance on the following slide, we currently expect full year revenue between $30.5 million and $31.5 billion, with adjusted operating margin now between 5% and 5.2%, and adjusted EPS between $2.35 and $2.55 a share.

This includes the impact of approximately $0.23 to $0.26 in non-controlling interest expense, which is up $0.06 to $0.07 from our prior guidance resulting from the Nextracker follow-on offering, and our ownership going from 61% to 51%. Before we begin Q&A, I'd like to emphasize our conviction and our strategy and our portfolio. While the world faces continued macro and geopolitical uncertainty, our well-rounded and diversified portfolio and customer base significantly mitigates exposure. The inherent strength of our business gives us confidence, and we continue to see solid momentum in the underlying drivers of our business.

With that, I'll turn it back to Jenny to begin Q&A.

QUESTION AND ANSWER SECTION

Operator: Thank you [Operator Instructions] The first question is from Mark Delaney from Goldman Sachs. Please ask your question.

Mark Delaney
Analyst, Goldman Sachs & Co. LLC

Q

Margins reached the highest level in many years at 5.1%. Nextracker, of course, is an important factor in that, given the strength that you reported there. But I think you also saw some sequential improvement in Reliability. Maybe you can help us understand a bit better how you think about margins by segment as the year progresses? I think pretty steady at these sorts of levels implied in guidance, but any puts and takes we should be considering by segment as it relates to margins?

Paul R. Lundstrom
Chief Financial Officer, Flex Ltd.

A

Yeah. Mark, so first, I'm glad you asked the question, margins were much, much better sequentially, and we were very happy to see that. Maybe just kind of, take you through the different segments. So first of all, Nextracker, as you know, you look back a year ago, Q1 margins for Nextracker were there trough margins for that year as they were still coming out of that, all that repricing of backlog and getting through the logistics and steel challenges they had a couple of years back. So they're lapping an easy comp, but I'll also say, really strong execution from the Nextracker team in the quarter at north of 17% margin. So that was really, really good to see.

You look at the other two segments sequentially, Agility, really good. Look, volume was down a little bit, but if you look at where volume came down within Agility, part of that was double-digit declines in the lifestyle business, as I think everyone knows, that tends to be the richer margin business unit within Agility. And so if I look at their decrementals on lower volume, I think they did a fantastic job managing that. So thrilled to see that.

And then if you look at Reliability, the Reliability story over the last six to nine months has been doing what we can to accelerate a number of very important next-gen programs. You saw 4% margins in Q3 and Q4 of last year and a huge improvement in Reliability as we moved here into Q1. On $51 million of incremental sales, profit dropped through at 45%, which is very strong incremental margins, I can't say enough about the execution of that team this quarter. Very happy to see it.

Mark Delaney
Analyst, Goldman Sachs & Co. LLC

Q

That's helpful context. I'm thinking about the higher-level opportunities that you spoke to, you mentioned some of the secular changes underway in areas such as electrification and AI. When you look at what Flex may need in order to properly address those opportunities over the next several years, how are you thinking about the company's capabilities, and would you consider using some of the cash on hand for M&A, and maybe acquisitions akin to what you did with Anord Mardix and adding even some product type capabilities? Thanks.

Revathi Advaithi
Chief Executive Officer & Director, Flex Ltd.

A

Yes. Mark, what I'd say is, both electrification and AI as it relates to both cloud and CEC and our power business are both important to us. We have been investing in our electrification in our EV business in automotive for a while, and you have seen the results of it in the bookings that came in last year and how we are continuing to perform with the overall growth of the business this year. So we feel really good in our investments there. We have made design investments that creates a platform opportunity for EV customers to use, when they want to use our platform so we can do that as a full design house, or we can do that as a joint manufacturing with them if they want to give us their own design for us to contract manufacturers. So electrification as a whole, we feel really good about our position there.

Will there be opportunities for tuck-in acquisitions? I would say there always is. At this time, our focus on the use of cash is really around buybacks, but we always look for nice technology add-ins if it's possible. And then we would love if it came in as a returns that Anord did for us, but we don't have significant gaps for our electrification, automotive portfolio to do really well. So we feel good about that.

I'd say, on AI, from the CEC perspective, the most important thing that customers are expecting from us, and we have a big platform ramp that's happening in the second half of this year for a cloud customer, that is around this particular issue is that, you have to be able to scale fast, you have to have very complex fully vertically integrated capability, and that's what customers are looking for from the CEC side. And that Flex is very good at doing.

From the power side, we have developed on our embedded power products that's in the industrial business, product that is very specific for GPU power needs. And those products are already launched with one customer, and we are looking to launch that with other customers that we have very strong growth potential. I don't see a lot of acquisition needs there, but I would say, yes, I mean, from a technology perspective, if there's any plug-in capability for both of these areas, we'll look at it. But at this point, we do think our best use of cash will be in buybacks.

Mark Delaney Q
Analyst, Goldman Sachs & Co. LLC

Thank you.

Operator: Thank you. Your next question is from Ruplu Bhattacharya from Bank of America. Please ask your question.

Ruplu Bhattacharya Q
Analyst, BofA Securities, Inc.

Hi, thanks for taking my questions. First one on margins, compared to your guidance for 1Q, I mean, margins came in much better especially in Reliability, and it looks like you're taking up the full year by 10 bps to 5.1%. But the EPS guidance range remains the same. Is that all because of the higher non-controlling interest from Nextracker? And on the Agility side, on maybe $100 million lower revenues, your margins declined sequentially, like 40 bps, 50 bps. So do you think that that will sustain at a lower level throughout the year because you're guiding lifestyle and consumer devices to be weaker?

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

Yeah. So good questions, Ruplu, appreciate it. And so first of all, just on your NCI comment and EPS, you're right, we took up the margin rate, things looked really good in Q1. Like you said, it wasn't across the board. We did better in Agility, Reliability and Nextracker in terms of margin performance. So that was very nice to see. And you heard my comments to Mark, just on the sequentials. The NCI answer, absolutely, that you're thinking about the right way. As you know, our stake went from 61% down to 51%. And so there's a little bit more minority interest headwind or NCI headwind, and we called that out in the prepared remarks. So you're right, that's how to think about it.

In terms of Agility decrementals, here's what I would say. Sequentially for Agility, they had soft revenue. It was for the things that we had sort of being telegraphing to everyone over the last couple of quarters, softer consumer end markets. But on 10% lower revenue, their decremental margins were only about 17%, which is pretty good considering where we're seeing the volume declines. It's in the lifestyle segment and in consumer devices, lifestyle of the three business units within Agility that tends to be the better margin business. And so when you have top line pressure, it does convert. That said, really strong execution by the team to sort of mitigate the softer volume, and it was things like cost reduction and pulling all the levers we need to pull to continue to have strong margins. And I was thrilled to see margins still north of 4% in the quarter despite the lower volumes.

Revathi Advaithi
Chief Executive Officer & Director, Flex Ltd.

A

Yeah. And at a time like this when there's so much instability in terms of how end markets are moving, it's really good to see margin performance like this. And we've always talked about how Agility performs in a down market. And so this is fantastic to see how well they're performing from a margin standpoint and a time like this. So we feel good about the year. We're still in the first quarter, our fiscal Q1, so it's a good time to hold full year the way we think it is. I think it's a prudent thing to do, but feel good overall in terms of where margins have come in.

Ruplu Bhattacharya
Analyst, BofA Securities, Inc.

Q

Okay. Thanks for the details there. Let me ask you a follow-on question on ROIC, return on invested capital. What do you target, what's your target range for that metric? It looks like over the last couple of quarters it's been trending in the 20%, like low 20%, including goodwill. And how do you see that trending over the next several quarters or years? I mean, what are some of the things that you can do to potentially improve that? Thanks.

Paul R. Lundstrom
Chief Financial Officer, Flex Ltd.

A

Yes. We target north of 20%. And ROIC is one of those funny things. If you target 40%, you're leaving investments on the table that could be accretive to our overall investors. And so I would rather not hard peg a number, but rather just say, our job is to maintain solid ROIC, so that all of our investors benefit and that would be certainly north of 20%.

Ruplu Bhattacharya
Analyst, BofA Securities, Inc.

Q

Okay. Thank you for all the details. I appreciate it.

Paul R. Lundstrom
Chief Financial Officer, Flex Ltd.

A

Thanks, Ruplu. I appreciate it.

Operator: Thank you. The next one is from Samik Chatterjee from JPMorgan. Please ask your question.

Samik Chatterjee
Analyst, JPMorgan Securities LLC

Q

Hi. Thanks for letting me ask a couple of questions on the call. I guess, if I can start with one really on the revenue side here in certain end markets that you are seeing a bit more headwind like consumer. I know you said they're tracking largely in line with what you expect even on the enterprise side, but if I look at sort of relative to where consensus was, it looks like you're sort of expecting a more back-end loaded year than where consensus was. And I'm just curious, like when you think about a bit more of a back-end loaded year, is that really driven by the visibility you have in maybe the engagement with the cloud customer that you talked about, or are there any other sort of segments you would call out where there's a bit more activity in the back half that maybe consensus isn't depreciating in relation to how you get to that full year number? And I have a follow up. Thank you.

Revathi Advaithi
Chief Executive Officer & Director, Flex Ltd.

A

Yes. Samik, I'll start, and then Paul will probably have something to add. First is, I think it's pretty usual for us to have second half revenue be higher than the first half. So that's pretty common for us. And then fiscal 2023 was definitely an unusual year. It was very strong first half. So the comps improve in the back half of the year. I would say that, if you look at fiscal 2022, second half was up 7% over the first half. And so we have had similar trends before that you see. And so we expect more normalization, I would say, this year than what we saw last year. And then if you look at the second half, what I feel really good about is what's driving the volume increase for us is our expectation in some new bookings that we have in cloud and power that will drive the second half acceleration.

Reliability already has a strong first half, will have a strong second half. And also, we don't anticipate much improvement in the consumer markets, and so we'll lap some difficult comps. So I'd say, overall, it makes sense for us to think the year will pan out the way we have. And then plus, we're trying to forecast in a very dynamic macro environment. We're usually very prudent in our end market forecast and have been fairly accurate in the last five years even with such a dynamic environment. And then lastly, I would say, very importantly is that, volumes move around, but we are also very confident in our EPS target. So I don't know, Paul, if you'll add anything to that.

Paul R. Lundstrom
Chief Financial Officer, Flex Ltd.

A

No, That's clear. Other than to say, welcome, Samik. Nice to hear from you.

Samik Chatterjee
Analyst, JPMorgan Securities LLC

Q

Thank you. And maybe just for my follow up, you talked about the opportunity with these cloud customers on AI-related engagements. I'm more curious if you see an opportunity to maybe take the margin profile a bit higher on these AI engagements related to the sort of traditional run rate business that you have with them, how does the competitive landscape look or what you even sort of, what are the sort of decision-making points that you're putting up with them? And is there an opportunity to sort of get a premium in some relation to drive a higher margin mix on that? Thank you.

Revathi Advaithi
Chief Executive Officer & Director, Flex Ltd.

A

Yes. I'd say, Samik, what Flex has done consistently over the last five years in almost all end markets that we participate in, is really focused on working with customers where we can provide right solutions that move our margin profile up. And you've seen that play out in the last five years. With AI, like I said in my comments in the beginning, what's really important is how quickly can you scale, are you capable of handling complex products, and we're talking scale, we're talking about significant scale in a short amount of time, are you capable of complexity of products like this, can you brainstorm with the customer in terms of making improvements to their product because a lot of it is new product going into the market. So from the CEC side, those are the main things that customers are looking for, is a partner who will be very consistent, has high technology capability.

And we do come on a price premium for those kinds of things. So that definitely helps in terms of our overall mix and margin. And then on the embedded power side, on the industrial side, those are the designs that we own. We command a premium on those products. There's not many suppliers out there who are capable of developing that, and we're with some very premier customers already with our products that we've been qualifying for the last year, and those will come in at a very significant premium to our base products.

So I would say, yes, I mean, we have shown consistently that we participate in end markets only if we like the margin profile. We don't go for the next shiny bicycle. So I would say, AI would be the same thing. And we feel quite confident that it will meet the margin profiles we're looking for.

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

No bicycles.

Samik Chatterjee
Analyst, JPMorgan Securities LLC
Q

Got it.

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

No bicycles.

Samik Chatterjee
Analyst, JPMorgan Securities LLC
Q

Thank you. Thanks for the responses.

Operator: Thank you. Your next question is from Matt Sheerin from Stifel. Please ask your question.

Matthew John Sheerin
Analyst, Stifel, Nicolaus & Co., Inc.
Q

Yes. Thanks and good afternoon. Question, Paul, on your comments around inventory, which continues to be fairly bloated revenue – I mean, on a dollar basis, certainly and a days basis. You talked about that unwind being relatively slow. Is that because there's still some hard-to-get parts and still elevated lead times, are customers asking you to keep inventory on hand? How do we think about this playing out over the next few quarters?

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

Yes. I mean, I don't love the word bloated. But inventory will be gradual to unwind. I think we've been carrying levels of inventory that we've needed to just support our end customers. And in many cases, you look back 18 months ago, our customers wanted to carry more buffer stock, and with the plan that, that be sort of short term, and I think short term sort of blended into medium term. But expectation continues that inventory will unwind. If you look at sort of, the dynamics of free cash flow, as you know, we've had significant support over the last year or two years from working capital advances. That's customers basically giving us cash to carry those higher inventory levels.

And so what's going to happen here over the next several quarters as you'll see, inventory levels gradually come down. You'll also see working capital advance levels gradually come down. So those two opposite sides of the balance sheet items will slowly start to pull back. And what I think will happen is, because we're carrying more inventory than we are advances, over time, you'll see cash flow improve. As I look to the full year, no change on our cash outlook. We still feel confident in the $600 million-plus of free cash generation, no change there. I would say, everything is at least at the moment, we're kind of surprise-free.

Matthew John Sheerin
Analyst, Stifel, Nicolaus & Co., Inc.
Q

Got it. Okay. Thanks for that. And then just as my follow up, just regarding Nextracker and the remaining 51% stake that you have in that, what should we think about the exit strategy and how that plays out?

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

Matt, we have been very consistent in what we've said over Nextracker, and we have followed through. You can see that with the last event that took place with our follow-on. And I would say, we've always said Nextracker will do better as a standalone company and we'll continue to execute in that direction. So no change on that.

Matthew John Sheerin
Analyst, Stifel, Nicolaus & Co., Inc.
Q

Okay. Thank you.

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

Thanks, Matt.

Operator: Thank you. [Operator Instructions] Your next question is from Steven Fox from Fox Advisors. Please ask your question.

Steven B. Fox
Analyst, Fox Advisors LLC
Q

Hi, good afternoon. Two questions, if I could. First of all, Paul, you mentioned the 45% incremental margins on the Reliability business. Can you break that down a little bit further, give us what's normal versus maybe what was a little more episodic? And then I had a follow up.

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

Sure. So Reliability, I mean, here's the quick math, sales were up 51%, profit was up 20 – excuse me, 51%, I wish. Sales were up $51 million, operating profit was up $23 million. So that's the 45% drop-through that I referred to. So Q3 and Q4 were tough. We made a lot of investments in that Reliability business as we were preparing to accelerate a number of these next-generation program ramps. And that meant we had some stranded resources, we had some stranded labor.

We were hiring sort of ahead of the curve. And so as volume comes and all those resources become fully utilized, it just has a huge effect on your incrementals. So I think that was a lot of it. And I would say, it was essentially across the board. We're ramping in the industrial business for a number of renewable energy programs, we got a bunch of stuff going on in automotive right now. They did much better sequentially as well. The health solutions business was up quarter-over-quarter. So I would say, across the board, business by business, strong performance and much better than what we saw in the back half of last year.

Steven B. Fox
Analyst, Fox Advisors LLC

Q

Great. That's helpful. And then just during the CapEx commentary, you mentioned investments – I assume this is internal investments in automation and AI or machine learning. Can you just talk about how you're making decisions on where to invest there? Are those customer-sponsored, are those things that are just meant to generally expand your capabilities? How do we think about what kind of return you get on those investments? Thank you.

Revathi Advaithi
Chief Executive Officer & Director, Flex Ltd.

A

Yeah. I would say it's a mix of both. We're definitely making investments in factory automation, machine learning related to improving our factory automation or our planning processes or things like that. So definitely making investments on that. I think whether you think about kind of improving your quality inspection capability as an example, and that helps the customer improve their overall quality performance, but also helps Flex from a productivity standpoint. So there are many examples like that where you will use to deploy machine vision capability that can self-learn and correct itself with time.

So these kinds of things would either be funded by us or funded by the customer to drive productivity and better quality performance. So I'd say, some of the investments are for us, some of the investments are customer-driven. But also from a product design perspective, those mainly come in our power business, that's in industrial, that's more for the generative AI space. But most of it is for kind of factory automation, I would say, deployments is what we're driving. And our belief is that it drives productivity for the business.

Steven B. Fox
Analyst, Fox Advisors LLC

Q

Great. That's very helpful. Thank you.

Paul R. Lundstrom
Chief Financial Officer, Flex Ltd.

A

Thanks, Steven.

Operator: And your last question is from Shannon Cross from Credit Suisse. Please ask your question.

Shannon Cross
Analyst, Credit Suisse Securities Research

Q

Thank you very much. Revathi, I was wondering if you could talk about within industrial, I saw you recently announced the opening of the facility with Enphase in Columbia, South Carolina, and when that was pointed to us in terms of being at least somewhat funded or supported by the IRA. So I'm just wondering, how you're thinking about some of the government stimulus money that's coming through, and how we'll see it sort of manifest itself within Flex's results over the next couple of years? And then I have a follow up. Thanks.

Revathi Advaithi
Chief Executive Officer & Director, Flex Ltd.

A

Yeah. I would say from IRA perspective that looks at driving growth in the US for renewables energy, for us, the biggest impact, Shannon will be growth that is funded by our customers, that is mainly focused on US manufacturing. So Enphase is a classic example of that, that we're quickly seeing customers pivot to US manufacturing capability to take advantage of things like IRA. I would say, from a margin standpoint, how that helps in the long run and how those incentives really play out, I think there's still work to be done there. But the view is that, there's a growth opportunity for our customers and us that we all should be really taking advantage of an Enphase and other customers in the inverter space that we're ramping up for all fit into that environment. So we do see overall growth in our US manufacturing as it results to IRA or infrastructure, and you've seen several announcements related to that.

Shannon Cross
Analyst, Credit Suisse Securities Research

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Great. And then, Paul, maybe if we could talk a little bit about cash, cash balance, share repurchase timing. You bought back $197 million of stock last quarter. How should we think about the pace of share repurchase? How are you thinking about that? And what do you think your sort of cash balances that you need to run the business? I understand free cash flow is more back-end loaded this year, but I think you had some excess cash coming into the Nextracker sale. And then, obviously, you've got those proceeds, and then you're going to generate cash. So just wondering how you're thinking about it in terms of return to shareholders? Thank you.

Paul R. Lundstrom
Chief Financial Officer, Flex Ltd.

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Yeah. So we were pleased to be able to step up repo in the first quarter, compared to what we did in Q4. Q4 was sort of challenged because of the – we're locked up because of Nextracker and really couldn't trade. And so getting $200 million or so done in the first quarter, by the way, at an average price in the $22, something or other, $22-plus, really happy with that. That's great for shareholders. Just looking at our valuation and you kind of do the sum of the parts and giving full credit for Nextracker, it does seem that core Flex is undervalued relative to EMS. And so as long as we see disconnects like that, we think it makes sense to be in the market. Not going to give like a hard peg number on what specifically we're going to do here in Q2, but I will say, we're going to continue to be in the market.

And you ask a good question, Shannon, on cash and what's sort of necessary. I would say, if you looked several years ago, the peak-to-trough cash use would say, maybe you need $1.5 billion. That's probably up a little bit over the last few years given things like inventory and just other challenging supply chain situations. But if you think about where we ended Q1, which excludes $500 million from the follow on, so take $2.6 billion, $2.7 billion plus another $500 million, we're well north of $3 billion. We have excess cash. And as Revathi pointed out, maybe 20 minutes ago, our number one priority is share repo right now. We think it's accretive to the investors, and makes good sense as a capital allocation option.

Shannon Cross
Analyst, Credit Suisse Securities Research

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Great. Thank you.

Paul R. Lundstrom
Chief Financial Officer, Flex Ltd.

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Thanks, Shannon

Operator: Thank you. No more questions at this time. You continue, sir.

Revathi Advaithi
Chief Executive Officer & Director, Flex Ltd.

Okay. Thank you. And on behalf of the entire Flex leadership team, I want to give a sincere thank you to all our customers, for their trust and partnership, and of course to your shareholders for your continued support. And then I want to thank our Flex team across the globe for their hard work and dedication. Thank you, everyone.

Operator: Ladies and gentlemen, this concludes today's conference.