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Flex Ltd. (FLEX)

Q3 2024 Earnings Call

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Chief Executive Officer & Director

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MANAGEMENT DISCUSSION SECTION

David A. Rubin
Vice President-Investor Relations

OPENING REMARKS

GAAP and Non-GAAP Financial Measures

- Please note, unless otherwise stated, all results provided will be non-GAAP measures and all growth metrics will be on a y-over-y 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 the Investor Relations website

Spin-Off

- As previously announced, on January 2, 2024, Flex completed the spin-off of all of its remaining interest in Nextracker to Flex shareholders
- As a result of the completion of the spin-off, Nextracker became a fully independent public company
- Flex no longer directly or indirectly holds any shares of Nextracker common stock and Flex will no longer consolidate Nextracker into its financial results
- Please note, our guidance for fourth quarter FY2024 excludes any economic interest in Nextracker and for FY2024 full year guidance includes Flex's economic interest in Nextracker for Q1 through Q3, however, it also excludes it from Q4 FY2024

- Lastly, the historical results of Nextracker and certain assets and liabilities included in this spin-off will be reported in Flex's consolidated financial statements as discontinued operations beginning in Flex's fourth quarter ending in March 31, 2024

Revathi Advaithi

Chief Executive Officer & Director

Q3 HIGHLIGHTS

Tax-Free Spin and Renewable Energy

- [audio gap] (00:02:55-00:03:02) with the tax-free spin that occurred in early January, making Nextracker a fully independent company
- We wish them great success in the future and look forward to watching their continued growth
- Through this process, we unlocked tremendous value and the approach reflects in our continued focus on creating long-term shareholder value
- Of course, Flex remains committed to enabling the transition to renewable energy in our core business
- We serve a wide variety of customers and applications, generating over $1B in revenue for this market
    - I should also mention that we continue to expand the use of renewable energy in our own factories as part of our net zero journey

Revenues, Operating Margins and EPS

- Now, moving to our results on slide 4, overall fiscal Q3 was another quarter of strong execution
- For Total Flex, revenue was $7.1B, adjusted operating margin came in at 6.7%, and we delivered $0.71 of adjusted EPS.
- Looking at results for Core Flex, which exclude Nextracker, we continue to execute very well in this dynamic environment
- Revenue was $6.4B, Core Flex operating margin came in at a record 4.9%, up both sequentially and y-over-y, and we delivered $0.54 of EPS.
- Again, this was solid execution in the quarter

Flex Model and Fundamental Changes

- Now, the takeaway should be clear
- Our results continue to show the resiliency of the Flex model and fundamental changes to the industry
- Despite significant macro-driven volume fluctuations, we've continued to deliver on our margin and EPS commitments
- We remain very well-positioned across the markets we serve, and this comes from our deep relationships with our customers and our ability to provide world-class quality and value in the products we manufacture

AI, Hyperscale and Data Center

- I want to share a couple of highlights from the quarter that demonstrate our strong market position
- AI is driving changes in data movement, both through the data center and across the network
- Our strength in hyperscale, data center and networking infrastructure are key enablers of our customers' success in delivering these products at scale

Comprehensive Offerings

- We've talked before about our strong positioning with multiple hyperscale customers
- We're the only EMS provider with a comprehensive offering including bespoke fully integrated rack systems and power solutions ranging from embedded, discrete and all the way up to data center critical power
- In addition, we offer value-added services in design, metal, components, supply chain management integration and aftermarket services, including circular economy
- As a result of our comprehensive offerings, we continue to see very strong growth in our cloud business

Networking Side

- On the networking side, a good example is our partnership with Cisco
- Recently, we were honored to receive their 2023 Electronic Manufacturing Services Partner of the Year award
- We're also building on our 20-year partnership with Ciena, another world-class networking company to provide US-based manufacturing capabilities and supply chain services enabling Ciena to ramp high-volume production of its innovative pluggable optical technologies in support of the BEAD, the Broadband Equity, Access, and Deployment Program, and the Build America, Buy America requirements

Automotive

NEXT-GEN MOBILITY

- Now, looking at automotive
- Next-gen mobility including EV-onboard electronics, charging infrastructure and advanced compute systems for the software-defined vehicle remain very important long-term growth drivers
    - And Flex plays a key role across these ecosystems to support the OEMs, including designing or co-designing content, while bringing world-class manufacturing and supply chain leadership

PORTFOLIO OF SOLUTIONS

- We have built a well-diversified portfolio of solutions for ICE, hybrid, full EV, and across the spectrum of driver assistance and safety
- For example, our advanced compute platform technology that powers software-defined vehicles is agnostic across ICE, hybrid and EVs
- We also have established relationships with many of the upstream semiconductor providers as evidenced by a previously announced partnership with NVIDIA for ADAS and autonomous applications
    - And we recently showcased our next-gen EV power electronics full design capability with STMicroelectronics, utilizing the latest in silicon carbide MOSFET technology

Technology and Vertical Integration

- So, you can see Flex is well-positioned for every stage of this long-term technology transition
- It is also very important to remember, as a platform, we're experts in complex computing power which gives us competitive advantage across multiple markets
- Our technology and vertical integration capabilities serve many applications, including hyperscale data centers, renewables, and next-generation mobility

- Our customers look to us to help them navigate the complexity and implement these integrated capabilities to give them a competitive advantage

Interest Rates and Supply chain

- Now, the current environment remains highly dynamic, and we're already seeing the impact from elevated interest rates in some markets and excess inventory in others
- We've made it through the supply chain crisis
    - However, we carefully watch the situation in the Red Sea and how that could impact supply lines

Margins and EPS

- We continue to execute through this cycle and we are very well-positioned in markets with strong, long-term secular drivers
- The greater stability in margins and EPS validates the change we've made to our business and the evolution of the top-tier EMS industry
- We're very optimistic about our future

Paul R. Lundstrom

Chief Financial Officer

FINANCIAL HIGHLIGHTS

- I would also like to start by wishing Nextracker great success on their new path and reiterate something that Revathi said
- This separation is a great example of our commitment to create strong shareholder value
- As you may recall, we executed on multiple value-creating transactions over this whole process with the private equity investment, the IPO, the follow-on, and finally the investor friendly and tax efficient spin of the remaining Nextracker shares

Revenues, Gross Profits, Operating Income and EPS

- Jumping to our third quarter performance on slide 7, it was another solid quarter
- Third quarter revenue was $7.1B.
- Gross profit improved to $712mm and gross margin increased to 10%, an increase of over 200BPS.
- Operating income was $477mm with operating margin at 6.7%, up from 4.8% in the prior year period
- And EPS came in at $0.71 for the quarter, increasing 15% which includes $0.10 of Nextracker non-controlling interest

Core Flex Results

REVENUES, OPERATING MARGINS, COSTS AND EPS

- Looking at Core Flex results, which excludes Nextracker, results were stronger than initially expected with Core Flex revenue of $6.4B down 11%, but against a tough y-over-y compare
- Core Flex operating margin came in at a record 4.9%, up 60BPS with another quarter of sequential margin expansion, up 20BPS from Q2
- This is reflective of our strong execution including cost actions and continued mix improvements

  - The Flex core business delivered $0.54 of EPS, up 10%

Reliability and Agility

REVENUES, OPERATING INCOME AND MARGINS

- Turning to our quarterly segment results on the next slide, Reliability revenue was $3B with solid demand in auto and medical devices, while we saw further macro-driven weakness in commercial industrial solutions and continued headwinds in residential solar
- Operating income came in at $159mm and operating margin for this segment improved sequentially and y-over-y to 5.4%
- In Agility, revenue came in at $3.5B as we executed on very strong AI-driven cloud demand
- Operating income came in at $174mm
- The team delivered a record 5% operating margin reflective of favorable mix, continuing value-added services adoption, and strong operational cost management

Nextracker

- Finally, Nextracker delivered revenue of $710mm, up 38%
- Operating income at Nextracker was $162mm, delivering 23% operating margin

Cash Flow

- Moving to cash flow on slide 9, we made further progress on our inventory improvement goals reducing net inventory again by 5% sequentially and 13% y-over-y
- In general, the semiconductor shortages that punctuated the previous supply chain challenges are largely back to normal, and we expect continued reductions in inventory and working capital advances
  - However, the Red Sea situation could temporarily impact the pace of those reductions, if supply chains are adversely affected by increasing transit times

CapEx and FCF

- Q3 net CapEx came in at $128mm, on target at 2% of revenue
- We expect to maintain a similar total investment level in Q4
- FCF in the quarter was $156mm
- We expect FCF in Q4 to be between $300mm and $400mm for Core Flex
- So, given where we are today, that would put us in line with our original FY2024 FCF guidance of $600mm that had assumed a combined Flex and Nextracker for the full year despite the absence of Nextracker in Q4
- In the quarter, we returned $275mm to shareholders through share repurchases ahead of the full Nextracker separation
  - FY-to-date, we've returned approximately $780mm

Reliability Solutions

- Please turn to the next slide for a segment outlook for the fiscal fourth quarter
- For Reliability Solutions, we expect revenue will be down mid-single digit to low teens as we expect continued strength in cloud power solutions, stable demand in automotive, and medical devices, and continued mixed demand in medical equipment and life sciences

- We also expect further macro-related weakness in core industrial and also residential solar

Revenue in Agility

- Revenue in Agility is expected to be down low teens to low 20s percent
- We continue to see strong AI-driven cloud spending with weakness in communications, enterprise IT, and consumer-related end markets
- Q4 is also typically our seasonally weakest quarter across Agility

GUIDANCE

Revenues, Interest & Others Estimated and Tax Rate

- On to slide 11 for our quarterly guidance
- With the Nextracker separation completed on January 2nd, Q4 guidance is now based only on Core Flex financials and is not comparable to previous consensus
- For Q4, we expect revenue in the range of $5.8B to $6.4B with operating income between $305mm and $355mm
- Interest and others estimated to be around $53mm
- We expect the tax rate to be around 15% in the quarter
- All of that translates to adjusted EPS between $0.50 and $0.60 based on approximately 425mm weighted average shares outstanding

Restructuring Charges

- And looking at our GAAP guidance, recall for Q3, we expected approximately $100mm in restructuring charges
- We implemented about $70mm of that in Q3, so we expect at least another $30mm of those charges will then shift into Q4

Full Year

REVENUES, OPERATING MARGINS AND EPS

- Looking at our full year guidance on the following slide, note that FY2024 Total Flex guidance still includes the impact from Nextracker in the prior three quarters
- Please note, Total Flex full year guidance is not comparable to our previous guidance or consensus due to the January separation of Nextracker
- So for Total Flex, we expect full year revenue between $27.7B and $28.3B, adjusted operating margin now between 5.7% and 5.9%, and adjusted EPS between $2.47 and $2.57 per share

Core Flex

- As with last quarter, for additional visibility, we are providing our expectations for Core Flex only for the full year, and this guidance is comparable to Core Flex guidance that we gave last quarter
- So for Core Flex, our guidance is essentially unchanged from last quarter
- We expect full year revenue between $26B and $26.6B.
    - We expect adjusted operating margin to be between 4.8% and 4.9%, and we expect adjusted EPS of between $2.07 and $2.17 per share

Diversified Portfolio and Customer Base

- As we enter into the final quarter of the year, our team continues to execute very well in a challenging environment
- As Revathi pointed out, the results we are delivering validate that Flex is a more resilient and efficient company
- Strong, long-term trends remain intact, and we continue to have ample opportunity to build on our diversified portfolio and customer base through new wins and increasing wallet share, and we'll continue to drive margin expansion and ultimately create shareholder value

CLOSING REMARKS

- Lastly, this year, we will hold our virtual investor event in conjunction with our fiscal Q4 earnings call, where we will provide full FY2025 guidance and also update our longer-term outlook

QUESTION AND ANSWER SECTION

Q

I wanted to ask regarding like with the updated visibility regarding end markets, can you please revisit the $2.65 Core Flex EPS target for FY2025 and let us know all the drivers regarding the same vs. – with respect to top line expansion vs. operating margins and buy-back support? And I have one follow-up.

Revathi Advaithi
Chief Executive Officer & Director

A

I'll first start by saying is that our FY ends in March and as Paul pointed out, we'll be doing our Investor Day in April. So, that's kind of when we'll be really talking about guidance for FY2025 and long term. But first is I'll just start by saying if I go back to 2022 long-term targets that we set, we talked about a few things, right? We talked about 5% Core Flex operating margin. We talked about mid-teens EPS growth and we still think those targets are in the right ballpark. I'll just say that the market is very dynamic. You know that as well as we do. So, we'll have to wait a little bit like I said in the beginning for next quarter to give the exact number when we give the full FY2025 guidance.

But I want to take a minute and just take a step back and look at what we've done, right, in the last four years to complete the transformation that we started. So, that includes major portfolio alignment, operational transitions and a lot of shareholder-friendly corporate development actions. This quarter, we hit Core Flex operating margin of 4.9% which was record, and we expect that to improve again next quarter. So, clearly, delivering on the commitment. We have a more agile and a more efficient company that's focused on higher-value business.

But the goal of all this transformation was also to make Flex a more investable company, so also focused on the quality of our earnings. And that means that if you look at the primary drivers of our fundamentals, it's about strong growth in end markets with long-term trends, increasing wallet share with our customers. So, it's good growth, right? And then, on top of that, we're adding things like value-added services and executing well operationally.

So, going back to the things we said, good margin expansion, in 2022, we said this; EPS growth in the mid-teens, despite all the macro and the corporate development work we've done with Anord and Nextracker, we've done good work on capital return. So, I would say we remain a strong, agile, resilient company, a lot of macro uncertainties, and we'll use the next few months to figure it out, but we feel good about the fundamentals of what we talked about in 2022.

Paul R. Lundstrom
Chief Financial Officer

A

I think you said it well. I mean, we told you that we think we can do margins of 5% down the road, and like you said, we just hit 4.9% and expect to do more. We also have talked about mid-teens EPS growth. I look ahead to next year, I think that's reasonable, low-teens, mid-teens. And we're buying back stock. And so, I think the hard part for us at the moment is what's revenue growth really going to be based on the macro. We're listening to all the same earnings calls that all of you guys are, too, and I could kind of go down the list for FY or calendar 2024, you look at telecommunications, CapEx looks down, enterprise spending continues to be a bit weak, industrial capital equipment seems to continue to be slowing a bit. So, I would rather just hold off a quarter, we'll talk about it in more detail at the Investor Day here in May. But I think you have a pretty good framework for how we're thinking about it.

Q

A follow I have is regarding the M&A landscape, like, what are the sort of activity that you are currently seeing in the space, and which is the target area for you in terms of end markets for M&A? Thank you.

Paul R. Lundstrom
Chief Financial Officer

A

So, I would say our posture really hasn't changed on M&A, and I guess I'll just kind of broadly talk about capital allocation. But we continue to have a pretty robust process, and I would say a pretty robust pipeline. We're always looking at the landscape of opportunities. There's nothing large-scale that I would say is in the hopper. We're talking about technology acquisitions and other tuck-ins that we can make to sort of improve the capability of the enterprise, but not large-scale M&A.

And if I think about how I would sort of prioritize M&A, frankly, it's probably last, unless we can get a really good deal. Continuing to focus on internal investment and make sure the business is well-funded for all the organic growth opportunities we think we have over the next several years, that's a key priority for us. And the stock continues, in our view, to be a great opportunity to create more shareholder value. So, we're going to continue to buy back stock.

Revathi Advaithi
Chief Executive Officer & Director

A

The only thing I'd add is if the areas where we would be interested in in technology or tuck-in acquisitions would be in the place of power, embedded power, critical power related to this, which we have a really good sizable business and a products business would be focused around hyperscale and data center customers, so continue building out that part of our portfolio. And the second would be around this continued growth in our value-added services business and things that add to that. So, those are the areas we would be keen on and would be investing in as we look further, like Paul said, but it comes second after buyback.

Mark Delaney
Goldman Sachs & Co. LLC

Q

Starting on cloud market, you mentioned today it's doing well. I believe Flex have been expecting about 20% growth in cloud driven by the multiple hyperscaler programs that have been ramping. Maybe you can talk a little bit more around how those are going operationally. Are you able to meet that demand? And how is growth in cloud tracking relative to your prior view of nearly 20% growth?

Revathi Advaithi
Chief Executive Officer & Director

A

The cloud business is doing really well. It'll be well north of the 20% that we talked about earlier. And when we were previously talking about this, we were kind of hedging our bets to look at how the markets develop and all that. But overall, our cloud business for FY2024, all said and done, would have grown well north of 20%. And I would say that we expect FY2025 to also be considerably strong for cloud. And this includes not just our CEC business, as you know and what we do there in terms of rack integration and all of that, but also our embedded power and our facilities power business. So, pretty significant growth for cloud. Cloud will start to become almost as big, at some point, as our enterprise IT business. So, it's catching up to that. So, really good growth coming out of cloud. And we expect FY2025 to be good.

Operationally, I would say doing well. We're very pleased with how the program ramps are going. And it is a very large-scale program, and we've made considerable progress on it and going well. So, I'm pleased with it.

Mark Delaney
Goldman Sachs & Co. LLC

Q

And my other question was just trying to better understand some of the mechanics in the fiscal Q4 guide. And in particular, it looks like the company is expecting EBIT dollars in fiscal Q4 to increase sequentially to, I think, about $330mm at the midpoint from, I think, the $315mm Core Flex did in Q3, even though revenue is dropping a little over $300mm quarter on quarter. So, maybe help us better understand, if you could, please, what's allowing EBIT dollars and end margin to improve so much, even as revenue is falling in the coming quarter per guidance. Thank you.

Paul R. Lundstrom
Chief Financial Officer

A

And so, I'll give you a little bit of clarity on that. So, first, just to kind of go back to Q3, because your question was that of sequential. So, third quarter, we did $6.4B for Core Flex. That was 4.9% operating margin. You're exactly right. Our expectation here at the midpoint would be $6.1B of revenue in Q4, at $330mm, that would be 5.4% operating margin. So, nice. Certainly, like the trajectory there. I would say it's a couple of things.

One, if you look at the revenue, it's down sequentially. A piece of that, probably a third, is just less recoveries. We talked a little bit about sort of the improving semiconductor market. We have less claims that are kind of going backwards, that inflation pass-through effect that we've talked about now for probably a year and a half. And so, I would say a little bit less sequential revenue just from claims. The rest is volume, and that does drop through. However, mix is improving. That's a good guy. That would be one.

Two, if you look at the tailwind we have from restructuring as we move from Q3 to Q4, a lot of those programs that we talked about in the prepared remarks, that $70mm or so, were implemented as we moved through the quarter. And so, you're going to have more benefit in Q4 than you have in the third. So, that's a good guy.

And then the other one would just be given the sort of choppy end markets and some volume contraction in some of our end markets, we're taking other cost actions. I think it's just a prudent thing to do. So, that kind of gets you to better margin, mix, cost-out, restructuring tailwind.

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

Q

Just relative to your outlook, and you pointed out several end markets where there's a weakness, but a quarter ago you took a very big cut to your forward guidance based on customer order cuts. So, the question is, have things gotten materially worse or in terms of any cancellations or inventory issues at customers, demand issues, have things stabilized? Because it looks like, your guidance is sort of in line with what we had previously expected?

Revathi Advaithi
Chief Executive Officer & Director

A

I would say that it's in line with what we had previously expected. I would say when we took that correction, when we did, we really looked forward. We looked at the feedback we got from customers. We used a lot of our own intelligence and planning to understand what channel inventories look like, how these end markets are going to behave, and used a lot of our own intelligence to come up with what the forward-looking forecast was going to be. And that's playing out to be in line with what we thought.

I would say in terms of markets itself, just to give you a little color of what we're saying, we're not seeing any significant difference from what we saw. We had said before that cloud was fairly strong, automotive continues to be strong, but interest rates will be a watch item for that as you've heard several people talk about. In healthcare, we said it was mixed. It continues to be that way. I'd say industrial has been weak, like we said before.

And so, overall, I'd say very similar. There's no kind of no new news to deliver. But what I'm happy about is, as you know, it's hard to do good forecast in this type of environment. So, I think we came pretty close to trying to predict what we thought our end markets were going to do, and it's in line with what we said.

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

Q

And then on the inventory reduction and expected cash flow, Paul, how should we think about the cadence of the share repurchase program, and could you remind us how much is left on your authorization?

Paul R. Lundstrom
Chief Financial Officer

A

So, left on the authorization, off the top of my head, I don't know that, but I'm sure David can pull it quickly. But let me tell you kind of what we're thinking. So, buyback this past quarter, about $275mm or so. I would expect that we'll probably do close to twice that here in Q4. The cadence definitely steps up. If I were to just put a placeholder in there, I would say go with $500mm, give or take, which would put us at, for the full FY, somewhere in the order of $1.3B. It's what we've talked about before, like there's – I think as we moved through the better part of the CY last year, a fair amount of stops and starts because we were in process for a lot of the Nextracker transaction, which means that we kind of got blacked out in some months. But we continue to believe that this is a nice value creation opportunity in our own stock, and hence the expected stepped-up cadence in our FY Q4 here.

Ruplu Bhattacharya
BofA Securities, Inc.

Q

Competitor Jabil also took down their guidance, but the strange thing there is they've taken down their H2 more than H1. I mean, if I look at your FY2025, the June quarter, September quarter, their guidance would imply some weakness in the end markets. My question to you, Paul, is the $2.65 in earnings that you have for FY2025, even without either restating that or not, can you remind us of what are some of the margin improvement levers that you have, so that even if revenues are weaker in H1 FY2025, what are your thoughts as to like what you can do in terms of margin improvement to help get the EPS to where you want to get to?

Revathi Advaithi
Chief Executive Officer & Director

A

First, I'll tell you is that we've shown this year, right, our ability to really manage our decrementals really well either through a variety of different ways, whether it is through improved cost management, driving strong productivity and efficiency in our factories, and then, of course, our end markets in terms of where we are participating and mix has also helped overall.

So, when I look at kind of H1 vs. H2, frankly, Ruplu, I mean at this point, it's too early to talk about FY2025, but I don't even know it's like H2 is a huge recovery. I think in general, FY2025 will be an interesting year. But I'd say our view is that we have tremendous room in terms of driving factory automation and productivity, and we have seen that play out this year, and we'll continue to drive that into next year. So, fundamental operating efficiency and productivity driven by factory improvement is going to be a core part of this. Our mix will continue to improve, so things like value-added services, growth coming from power and hyperscale, all those are critical areas where we'll see margin improvement driven by that.

So, I think those are the ways that we continue to see margin improvement, and then we also have tailwind from restructuring that we just did that'll continue to flow through into next year. So, those are all the ways we're thinking continued margin improvement, and I think this year and the last few years have proven that we can deliver it.

Ruplu Bhattacharya
BofA Securities, Inc.

Q

For my follow-up, I want to ask you another broad picture question. So, now that Flex is Core Flex ex-Nextracker, where do you think your investments will be more, which end market or which segment? And as you look out beyond this near-term weakness in the end market, what do you think will drive growth for Flex? I mean, which end market or which sector, and where would you want to invest your CapEx? And I know, for example, you've got a big cloud customer you talked about, but I mean, any areas, is it Reliability that you want to invest in, is it Agility or both, any thoughts there?

Revathi Advaithi
Chief Executive Officer & Director

A

We're going to talk a lot more about this in our Investor Day. But just giving you a preview of it would be, we'll continue to invest significantly both in commercial and in capacity growth for power related to cloud. And that's going to be a considerable part of our growth. I would say cloud itself within our CEC segment, so that is focused on kind of AI and hyperscale growth, will be continued investment for us. So, this theme is kind of in line with what we talked about last Investor Day and that has proven to be a very good commitment of our resources. And that'll continue to be a major macro growth driver for us.

I would say the second would be, we'll talk more about this in a few months, but value-added services, which is a combination of recycling, waste management, but also things like additional component services or more vertical integration across our end-to-end wallet share of our customers is a significant part of our growth strategy and that has proven to be – has had good tailwind over the last few years and we expect that to be a continued growth focus for us and we'll discuss that more.

And then, of course, everything around electrification will be – I mean, we continue to increase our wallet share in the automotive market and that'll be a growth area also. So, if I look at the macros, those are very much in line with the areas that I think are good growth drivers, not just for Flex, but you see that reflected in the industry itself. So, those will be our focus areas.

Steven B. Fox
Fox Advisors LLC
Q

Couple of questions from me. First of all, on the cash flows looking ahead, now that we're looking at the Core Flex business into next FY, can you give us a sense for how we – sort of some rule of thumbs on working capital, especially as you finish up the year, it sounds like working down some inventory. And then, I had a follow-up.

Paul R. Lundstrom
Chief Financial Officer
A

I think good news on this, Steven, is we do continue to see progress on inventory. And I don't want to guide on FY2025 yet. We're still kind of working through that process. But I certainly will like the momentum and how things have sort of loosened up a little bit. My only hedge on that would be we supported the inventory growth with working capital advances from customers, and those will kind of unwind together. Maybe not exactly the same time, but those kind of come down generally simultaneously. But, yeah, I mean, expect more good things to come when it comes to cash, because I do see a working capital unwind here as we look forward over the next couple of years.

Steven B. Fox
Fox Advisors LLC
Q

And then just, there's been a lot of interesting comments on the served markets. Just stepping back for a second, I noticed the sort of justified reason for not getting too specific on FY2025. But it also sounds like you haven't seen any other leg down. So, can you just sort of express to us like what your biggest concerns are as you head into the new FY that are out of your control? Thanks very much.

Paul R. Lundstrom
Chief Financial Officer
A

I would say – I mean, Revathi and I probably, we worry about lots of things, but I – and maybe they're slightly different, but mine would be – I worry a little bit about the end markets. I think the operations are well managed and I think we've demonstrated that we can grow earnings despite end market contractions. And I think we have enough levers to pull that, I think, you can see great operating performance despite a tough year here in FY2024. But revenue is one of those things that, until it stops going down, it's not going up. And so, I do worry a little bit about things like telecommunications infrastructure, enterprise IT spending, what's going to happen with medical equipment, which would be more of the CapEx and medical centers.

But, boy, there's a lot of tailwinds right now and cloud seems to be going quite well. I think automotive has held up well, despite interest rates. I think there's parts of the industrial business that – it's getting maybe bad press globally right now, but man, we'll have some great opportunities and I continue to be pretty bullish on the supply chain continuity argument is such a tailwind for the macro in EMS and especially for Flex. I think that's going to be a good guy for us over the next several years. So, there's some specific end market challenges that I'm a little bit anxious about, but I think overall the macro is pretty good for companies in our industry. We just need to execute.

George Wang
Barclays Capital, Inc.

Q

Just the two quick ones. Firstly, just looking at the guidance for the FCF for Q4 seems very strong, especially so they more than doubled sequentially from a Core Flex standpoint. Maybe you can kind of double-click some sort of puts and takes on the driver, obviously aside from some factors you mentioned [indiscernible] (00:41:00) inventory and some working capital advances reduction. Just curious kind of additional leverage you guys have as we look out to FY2025.

Paul R. Lundstrom
Chief Financial Officer

A

So, one thing I'll just point out is we do tend to be a little seasonal on cash flow. Our FY end is March. A lot of our customers' FY end is December. And so, there can be a little bit of timing between our Q3 and customers' Q4. And so, Q3 tends to be a little on the light side. Q4 for us tends to be much better as some customers sort of hold checks as they get to their year-end. So, seasonally, we tend to be a little bit better. That's part of it.

We're definitely making some nice progress now on inventory. As I had kind of mentioned to Steven, working capital advances and inventory will, broad brush, I would say they will come down sort of simultaneously. But that should continue to be a tailwind for us as we unwind some of that inventory from that chip shortage we dealt with over the last couple of years.

My only other comment, I would say, this is a typical CFO comment, I really don't like giving quarterly guidance and please don't expect that going forward. The reason we were so sort of clear and prescriptive here on Q4 was I think it's important for people to understand how things look post Nextracker separation. And so, that $300mm to $400mm of FCF we're expecting in Q4, typically I wouldn't make that sort of guide and +/- that. But generally speaking, we feel pretty good about where we are now for the year.

George Wang
Barclays Capital, Inc.

Q

Just a quick follow-up, just to kind of try to hone in on the AI, kind of power, hyperscale, so exposure there, just – are you able to quantify the revenue contribution for this particular segment, sort of, enjoying kind of over 20% growth, kind of what's the mix roughly vs. Total Flex revenue? And do you guys sort of incorporate some of the share gains as well aside from sort of the obviously a growing pie for the AI industry at large, it's not like some share gain as well, maybe you guys are taking vs. other ODMs out there, given such a double-digit strong growth rate. Maybe you can give additional color on those.

Revathi Advaithi
Chief Executive Officer & Director

A

We'll talk a little bit more about this in our Investor Day, but we haven't shared – I mean Anord Mardix, because we bought that business and so that revenue is known, but it's grown dramatically since we bought it. We haven't shared our embedded power business and those numbers publicly and our value-added services numbers that go into hyperscale. So, those haven't been shared.

So, I would say if I look at kind of AI growth and overall growth for us in hyperscale across these capabilities, all of those are fairly strong. Yeah, we've definitely clearly taken share, I would say, in the CEC segment. In the embedded power segment, we don't really have major competitors who have our capability, our product capability. And I would say, so, we feel very comfortable with the fact that we're taking share in the right way and not really from ODMs because we don't like to compete with ODM margins. So, I would say more in terms of being able to sell our overall value. So, the margin accretion also is in line with what we would be looking for.

So, more to come on that, I would say, here in a few months, but we'll definitely focus on kind of AI and data center growth as it relates to us. But we feel really good about the growth associated with that for us.

Revathi Advaithi

Chief Executive Officer & Director

CLOSING REMARKS

- We look forward to speaking with you again when we hold our investor event in conjunction with our fiscal Q4 earnings call
- I would like to, on behalf of my leadership team, want to say a thank you to all our customers and our shareholders for their support and, of course, the Flex team across the globe for their dedication and contributions