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# Flex Ltd. (FLEX)

## Q4 2023 Earnings Call

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# MANAGEMENT DISCUSSION SECTION

**Operator**: Good afternoon. Thank you for standing by. Welcome to Flex's Fourth Quarter and Fiscal 2023 Earnings Conference Call. Presently, all participants are in 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, Chris. Good afternoon and welcome to Flex's fourth quarter fiscal 2023 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 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, unless otherwise specified 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 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. Starting with our fiscal Q4 results on slide 4. Overall, it was another solid quarter. Our revenue grew 9% year-over-year with growth in our Reliability, Agility and Nextracker segments. Adjusted operating margin came in at 4.9%, and we delivered $0.57 of adjusted EPS, which was a new record for fiscal Q4.

Looking at the full year results, fiscal 2023 was very strong despite the continuing challenges in the macroeconomic landscape. We grew revenue 17% year-over-year with adjusted operating margins for the full year at 4.8%. And we delivered adjusted EPS of $2.36, up $0.20 – up 20%. That's the third year in a row EPS has grown at least 20%. Clearly, we can see the progress we have made by executing on our strategy.

Turning to slide 5. We got a lot done this year. We completed the Nextracker IPO, getting the pricing and timing right for a great showing despite what is still a very tough IPO market.

Looking across the organization, we had another record year in automotive wins. Not only has automotive revenue grown 40% over the last two years, but the composition continues to shift to next-gen mobility with an increasing percentage of our wins being design-led. In the business areas we're targeting, we are providing industry-leading design and engineering capabilities to secure long-term wins and build customer trust.

Now, this is also true for our wins in the healthcare space. As medical devices become smarter and more complex, OEMs are looking to increase their outsourced manufacturing to help navigate this complexity. Our extensive experience and capabilities and highly complex automation and global scale, position us well to help healthcare customers succeed in this changing landscape.

As with our automotive business, our design and engineering capabilities and track record of serving leading healthcare brands give us a competitive market advantage. We had exceptionally strong growth in our cloud business this year as we ramp new hyperscale cloud programs. Our vertical integration, advanced technology capabilities and scale help drive these opportunities, and we have won with multiple hyperscale cloud partners.

Other notable trends this year include our growth in renewable energy-related hardware from inverters to EV chargers, accelerated by the global shift to clean energy. We also see increasing demand from the US IRA passage, creating additional opportunity to help our customers take advantage of this growing market.

Now, turning to supply chain. We continue to navigate the ongoing challenges and supply constraints during the fiscal year. However, we did see improvements in many areas as the year progressed. While there is still the occasional challenge, which is a part of our everyday business, the most significant supply issue remaining is the constraints with larger nodes semiconductors that primarily affect our Reliability segment.

Regionalization remains an important topic, as companies strive for efficiency and resiliency. There's a lot of complexity here, and the topic often gets oversimplified. Our core value proposition is that we connect, design and advanced manufacturing, supported by vertical integration and complex supply chains. Then we bring circular economy capabilities such as refurbishment and recycling to minimize waste. And we do this in every major theater of operation, which is critical to regionalization.

Because at the heart of it, regionalization is about moving production closer to consumption, adding resilience to the value chain and addressing sustainability concerns. Flex has a strong track record of helping customers optimize their outsourced manufacturing and services, guiding them on what products should be produced where and balancing the dimensions of technology, labor and supply.

We are very well positioned to help companies reduce risk, decrease time-to-market and become more resilient. A good example is in our lifestyle business, which significantly outperformed weak consumer end markets in fiscal 2023 from targeted wins and share gains. Many of these wins came from our ability to regionalize our customers' manufacturing and deliver in multiple geographies.

Overall, we've done very well managing through the cycle, and that is reflected in our fiscal year performance. We have built strong relationships with our customers and our suppliers, increased our opportunities for growth and implemented new capabilities across our operations that make us even stronger and more resilient going forward.

Now, turning to slide 6, our accomplishments and contributions are being recognized by our customers and industry groups that acknowledge Flex as a leader in advanced manufacturing technology as well as our efforts to deliver for our customers in a responsible and sustainable manner. I'm very proud of what we have accomplished.

Paul will provide guidance in just a moment, but I want to make a few comments as we look ahead to fiscal 2024. As you're well aware, it's a highly dynamic environment, and there is increasing uncertainty with general concerns on recession, interest rates and geopolitical dynamics.

However, we always want to provide the most transparency we can based on our visibility into current customer demand. We will manage through this environment as we have through all the challenges of the last several years.

Looking past the near-term macro uncertainty, we believe the fundamentals of outsourced manufacturing remained very strong. Our value proposition and our ability to manage through the cycles positions us well for the future.

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

## Paul R. Lundstrom

*Chief Financial Officer, Flex Ltd.*

Okay. Thank you, Revathi, and good afternoon, everyone. I'll begin with our fourth quarter performance on slide 8. Fourth quarter revenue was $7.5 billion, up 9%. Gross profit totaled $594 million and gross margin improved 60 basis points to 7.9%.

Operating profit was $364 million, with operating margins at 4.9%, improving 60 basis points year-over-year. And earnings per share came in at $0.57 for the quarter, an increase of 10%.

Turning to our fourth quarter segment results on the next slide, Reliability revenue increased 14% to $3.2 billion. Operating income was $142 million, up 1% and operating margin for this segment was 4.4%. Revenue growth was strong. However, the program investments and labor inflation, we mentioned last quarter, continued to pressure margins in the segment. We expect Reliability margins to progressively improve over the next several quarters.

In Agility, revenue was $3.7 billion, up 5%. Operating income was $171 million, up 13% and strong execution and cost management drove an impressive 4.6% operating margin. Finally, Nextracker revenue came in at $519 million, up 18% year-over-year. Operating income at Nextracker was $70 million, three times the level it was last year with operating margins now at 13.5%.

Looking at our full year results on slide 10. Revenue was $30.3 billion, up 17%. Gross profit totaled $2.3 billion and gross margin improved to 7.7%. Operating income for the fiscal year 2023 totaled $1.4 billion, up 23% with a record 4.8% operating margin. For the full year, Flex achieved EPS of $2.36, up 20%. It's worth pointing out the greater than typical differential between our GAAP and non-GAAP earnings, was primarily due to the Nextracker IPO-related charges.

On slide 11, we have our performance by business unit for the full year. Reliability revenue was $12.7 billion, with operating margin finishing at 4.8%. Within Reliability, automotive revenue was up 22%, primarily driven by new project ramps for our next-gen mobility portfolio. Health solutions was up 9%, and industrial was up 24%, aided by very strong growth in renewable energy, hardware EV charging and data center power. Overall, the solid double-digit growth in this segment is representative of the strength of our comprehensive portfolio.

The Agility segment revenue came in at $15.8 billion, delivering a 4.4% operating margin. This strong operating margin is reflective of our strategy to focus our efforts on more profitable business, as well as strong cost management on slowing in consumer markets. Within Agility, CEC was up 30%, resulting from new cloud wins along with portfolio exposure to critical infrastructure like security and networking. Consumer devices revenue was down as expected, reflective of the consumer end market weakness.

And finally, lifestyle revenue increased 2% as share gains drove better than market performance more than offsetting softer consumer spending. Nextracker completed the year with revenue of $1.9 billion, a year-over-year improvement of 31% and ended the year with a 10.7% operating margin, over four points higher than the prior year. Overall, we were pleased with our performance and our ability to deliver strong sales and profit growth in a challenging year.

Moving on to cash flow on slide 12. We saw inventory improvements in Q4 with net working capital advances down – with inventory net of working capital advances down 8% sequentially. Total gross inventory also dropped this quarter by about $300 million. We continue to see improving signs here. However, we're still managing through shortages and extended lead times for some materials, so we expect inventory will be slow to unwind in the near term. Q4 net CapEx totaled $180 million, and for the full year came in at $615 million on target at 2% of revenue. We expect similar investment levels in our fiscal 2024.

Free cash flow was $270 million for the quarter and $335 million for the full year. We expect stronger cash generation in FY 2024 as the severity of the component shortages improves. Free cash flow in 2024 should be $600 million or more.

In terms of financing and capital structure, we made some minor debt repayments in Q4, retiring the $79 million Indian CapEx loan and a €250 million term loan. That's North of the $300 million in debt retirement, but you won't see that in consolidation as we put $150 million of debt on to Nextracker as part of their IPO.

Maybe a couple of comments on our cash balance before we turn to capital allocation. Cash on hand at $3.3 billion is solid and more than we would typically carry. The elevated level is a product of two things: one, buffer cash given the level of cash cycle volatility created by global component shortages, a situation which, as we have mentioned, is beginning to improve; and two, proceeds from the Nextracker IPO were significant, about $700 million. I'll add, we do not plan to carry this elevated level of cash indefinitely.

Turning to slide 13. We remain focused on our capital allocation priorities, including investing in future growth and return of capital. We bought back $44 million worth of stock in the quarter and $337 million for the full fiscal year.

Please turn to slide 14 for our segment outlook for the fiscal first quarter. For Reliability Solutions, we expect mid-single to low double-digit revenue growth for the segment, driven by growth across all three business units based on continuing longer-term secular trends. Revenue and Agility will be down mid-single to low double-digits with consumer end market weakness affecting both lifestyle and consumer devices, offsetting modest growth expected in CEC.

On to slide 15 for our quarterly guidance, we expect revenue in the range of $7 billion to $7.5 billion with adjusted operating income between $320 million and $350 million. Interest and other expense is estimated to be around $52 million in the quarter, and we expect the tax rate to be around 13%.

So for the quarter, we're expecting growth from OP at the midpoint with some pressure from interest and taxes. All that translates to adjusted EPS between $0.47 and $0.53 a share based on approximately 459 million weighted average shares outstanding. This guidance includes the impact of approximately $0.03 to $0.04 of non-controlling interest resulting from the Nextracker IPO.

Looking at our full year guidance on the following slide. It's a very dynamic macro right now. However, based on our current demand indicators for Reliability, we expect the positive trends we described in Q1 to continue through the year. For Agility, we also expect the challenging environment to continue beyond Q1 with some potential improvements late in the year. We expect Nextracker to continue to grow based on their strong positioning in the utility solar space.

We currently expect full year revenue between $30.5 billion and $31.5 billion, adjusted operating margin between 4.9% and 5.1%, and adjusted EPS between $2.35 and $2.55 a share. This includes, as Q1 does, approximately $0.17 to $0.19 of non-controlling interest again resulting from the Nextracker separation.

To close, I'd just like to reiterate our confidence in the strategy to deliver against our longer-term goals. Over the last three years, we've demonstrated how we can manage through many challenges, improve our portfolio and still deliver double-digit annual EPS growth. So we'll manage through this current backdrop and remain focused on creating long-term value for our stakeholders.

I'll now turn the call back over to Chris to begin Q&A.

# QUESTION AND ANSWER SECTION

**Operator**: Thank you. We'll now begin the question-and-answer portion of today's call. [Operator Instructions] Our first question comes from Steven Fox, Fox Advisors. Steven, please go ahead.

**Steven B. Fox**
*Analyst, Fox Advisors LLC*

Q

Hi. Good afternoon. I was just curious, one, if you are still comfortable with the fiscal 2025 guidance that you laid out at your Analyst Meeting a year ago. And how it might change within a slowdown in some of the core Agility segments?

And then secondly, I know you just said that you're not planning on carrying the excess cash for a while, but I mean your stock was recently under $20, and you're putting up very strong guidance here. What's the impetus that would get you to sort of buy back significant stock going forward? Thanks.

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

A

Thanks, Steve. Hey, I'll start with the first one and give it to Paul for the second one. I'd sort of start with saying that we're not giving an FY 2025 guidance here. But we're very comfortable with how we have progressed towards those long-term goals that we have set for ourselves. We had said that our expectation was for a high single-digit CAGR over a number of years. We still expect that to be the case even with a slower growth in fiscal 2024, 2023 was up really strong 17%.

And so overall, we feel still good about our kind of FY 2025 guidance that we have given, though we're not really going into details here. And then you'll see with our current guide and what we performed with FY 2023, that it still remains on track, even with all this craziness around the macro dynamics and everything that's happening, I think we've managed the situation really well, which makes us comfortable with that long-term goals we have given you. Paul, on cash?

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

A

Yeah. Just, Steven, on the cash, I appreciate the question. As I mentioned in the prepared remarks, cash was definitely on the high side at the end of Q4. Our priority is stock repurchase, full stop. If you saw what we did in Q4, it was much lighter than I would like to have seen it. That was due to the blackout associated with the Nextracker IPO.

Once we knew we were going to be into the market, we sort of have to stop trading and then there's a bit of a quiet period thereafter. So if I had my druthers, we would have done more in Q4. I'll say we're going to do more in Q1 than what we did in Q4. And again, that's – if you look at all of our capital allocation choices, stock repurchase right now is by far the highest priority.

**Steven B. Fox**
*Analyst, Fox Advisors LLC*

Q

Thanks for that. And Rev, if you just – the one part of the question was on the Agility segment. Anything you have to do to manage that sort of in a down year? Thank you very much.

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

A

Yes. I would say we've done really well in terms of how we have managed the Agility segment a couple of years ago, maybe three years ago, I'm forgetting how long ago, we talked about how we really focused on having the right operational model to help Agility manage through the ups and downs of the demand cycle knowing it's a little bit more volatile than our Reliability business. And that has really helped us, if you can see in terms of the operating margin performance for Agility through this time.

I think we'll see what we have commonly talked about before, which is lifestyle and consumer devices are pressured, as you can see in the consumer market, though, lifestyle will probably lap the comps a little bit sooner because they've been seeing the impact of that for a few quarters.

CEC, I would say, though, there is a lot of noise on cloud. We still expect cloud to grow positively. Had a strong – they had a strong FY 2023, they grew 30%. So I'd say overall demand in Agility will fluctuate some like we've talked about in FY 2024, but we feel very good about the operational cadence we have in terms of managing margins for this business through the cycle.

**Steven B. Fox**
*Analyst, Fox Advisors LLC*

Q

Great. Thank you.

**Operator**: Thank you. Our next question comes from Mark Delaney, Goldman Sachs. Mark, please go ahead.

**Mark Delaney**
*Analyst, Goldman Sachs & Co. LLC*

Q

Yes. Good afternoon. Thanks for taking the questions. First, just a quick housekeeping one. I just want to make sure I understand how guidance would have prepared – would have compared to how you previously reported. So you are assuming a flat share count sequentially so you're not beginning, I would think, any big use of proceeds from Nextracker. You say there is a $0.03 to $0.04 impact from non-controlling interest. So is it fair to conclude that EPS guidance would have been at the midpoint, $0.53 to $0.54, if there wasn't the transaction done?

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

A

You're absolutely right, Mark. You're absolutely right. So all else equal, we would be up quite a bit more year-on-year. If you look at it purely on an EPS basis. Your comment on share count is also correct. We typically guide flat. But I think everybody knows, we're sitting on north of $3 billion worth of cash. And as I mentioned to Steven, our capital allocation priority is weighted towards repo at the moment.

**Mark Delaney**
*Analyst, Goldman Sachs & Co. LLC*

Q

Got it. Okay. That's helpful just to level set on guidance and relative to the prior accounting methods. And then just my question on the business was last quarter on your earnings call, you said you expected to grow in fiscal 2024. You're not formally guiding for revenue growth a little bit year-on-year with the new revenue guidance. You're calling out though increased macro headwinds that it sounds like gone a bit more difficult over the last 90 days. So maybe you can just talk about whether or not they have become incrementally more challenging so your views come down overall? Or is there something incremental on a company-specific basis, that's offsetting it like share gain? Thanks.

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

A

So Mark, what I'd say is that we've been like super consistent on this for the last maybe three or four quarters, right? We've talked about how we are planning for demand slowdown, kind of what our recession playbook looks like. And we've been really focused on forecasting the right demand on behalf of our customers for a while. So we've been super consistent in terms of our view of how fiscal 2024 will play out. And that's why it's not much of a surprise. We're very comfortable saying a few months ago in our last earnings call that we'll see positive growth for fiscal 2024, we're guiding in line with that. So despite all the noise in the last 90 days, we haven't changed our view in terms of how we see fiscal 2024 play out. I mean we have to talk about macro headwinds and all of that. There's too much noise in the system not to talk about it, right?

And – but what I would say is we've been very consistent, right? And we've been talking about this for three, four quarters in terms of how we see the recession play out? How we're planning for it? And I would say, despite all the noise, we've been quite consistent in what we said 90 days ago and what we're seeing now in terms of our overall growth rate.

So we're not seeing anything change from our view. So I think you're hearing a lot of noise publicly about this, but how we have thought about our six segments and how they're going to perform through the cycle, really hasn't changed at all for us. We have been super consistent, which is what helps us give this kind of guidance and pretty much in line with what we thought it was going to be. Paul, anything you want to add to that?

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

A

No, I'd just say the turmoil that we're seeing externally is more regional banking than it is with our end-markets, things haven't changed significantly, a couple of little puts and takes. But on balance, I'd say we're pretty consistent, I would say, even over the last six to nine months.

**Mark Delaney**
*Analyst, Goldman Sachs & Co. LLC*

Q

Thank you.

**Operator**: Thank you. Our next question comes from Ruplu Bhattacharya, Bank of America. Ruplu, please go ahead.

**Ruplu Bhattacharya**
*Analyst, BofA Securities, Inc.*

Q

Hi. Thank you for taking my questions. For my first question, it's related to your full year fiscal 2024 guide. Paul, what have you factored in with respect to year-on-year negative impact on the top line from inflation pass-through and also year-on-year margin benefit from the same inflation pass-through impact?

And I think related again to the guide, you said free cash flow of $600 million, which is almost double year-on-year, but you also said inventory will be slow to unwind in the nearer term. So can you give us your thoughts on how we should think about free cash flow linearity in fiscal 2024?

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

A

Okay. Sure. There's a fair amount to unpack that Ruplu. So if I missed something, redirect and I'll make sure that I answer it. But first on what have we factored in for the guidance in terms of pass-through, maybe just talk real quick about Q4. So Q4 recoveries were slightly less actually than what we had seen a year ago. Now, a year ago, so we were at peak levels in terms of inflation rate. And so we were passing through a lot. And as you and I think everyone else understands those are very low calorie pass-through.

And so again, what we saw this past quarter, down just a little bit. What we've assumed going forward, look, it's a little awfully hard to call right now. We've put a guidepost out there for the full year 2024. I'm not exactly sure how this is going to play out but we're assuming it's essentially going to be flat. How that would affect OP? Well, if recoveries come down on a percentage basis that would be helpful.

I think the second question was on free cash flow and inventory. Yeah, you're right. We're guiding to double the cash generation that we saw in our FY 2023, $600 million, I think what I said was $600 million or more. It will be a slow and gradual improvement to the working capital situation.

I was really happy to see the tailwind that we saw in Q4. Working capital advances were up sequentially, inventory was down sequentially. So that was a good guide for cash. But I don't expect that we're going to continue at a $300 million down a quarter after quarter, after quarter. It will be a slow rollout. And cash flow, if you look at how we've typically performed, cash flow tends to be more back-half loaded. So, I think that's probably what we'll see here again this year.

**Ruplu Bhattacharya**
*Analyst, BofA Securities, Inc.*

Q

Okay. Thanks for the details there, Paul. Maybe for my follow-up, I've a question for Revathi. You've been steering the business more towards the longer life cycle areas like automotive, health care and industrial. So, can you give us your thoughts on how you see the capital intensity of the business evolving over the next two, three years? I know you're guiding CapEx to be at the same $600 million level as in fiscal 2023, which is higher than the past two, three years. So should we expect this level of CapEx going forward? And where do you see the investments more, which end markets and which areas are you investing more to drive future growth? Thank you.

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

A

Yes. Thanks, Ruplu. I'd say we've been redirecting this business with this strategy for the last couple of years, right? So I would say the – how our CapEx has played out the last few years is not going to be very different than what you see moving forward in terms of the mix between Reliability and Agility. I've said this before in prior calls, what we've gotten really good at is using our equipment, which is common across various customers and redirecting that well based on the pluses and minuses of volume, and that has helped in terms of how we overall manage our CapEx across the businesses, and that applies for both Reliability and Agility.

So I'd say, overall, CapEx for Flex will remain in line with what we have talked about, but it does require us to be very efficient in terms of use of capital across our businesses, and how we manage volumes going up and down and use capital more efficiently.

I'd say, in terms of Reliability, the effect you would see is more investment in ramps because most of the programs are very complicated, and they involve very high complex automation for areas like health care and automotive. So the investments will be more OpEx heavy towards ramps, which is what you are tending to see from us right now.

And then I'd say the other thing is if you look at the effect of regionalization, which is happening as a result of what is happening in the macro world, even that we'll redistribute our capital more efficiently in our – and that's what we are planning to do, and we've been doing that the last couple of years and that will lean a little bit of CapEx towards reliability, which is driving a lot of growth towards – to that part of the business. So net-net, I don't see a lot of change in terms of overall CapEx, the distribution of it may continue to shift.

**Ruplu Bhattacharya** Q
*Analyst, BofA Securities, Inc.*

Okay. Thank you for all the details.

**Operator**: Thank you. Our next question comes from Matt Sheerin, Stifel. Matt, please go ahead.

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

Yes, thank you. My first question just regarding your guidance or framework for FY 2024, which calls for a modest growth at 2% or so. Given that your Q1 is basically going to be flat to slightly down year-on-year, it implies as a more back-end loaded growth? And do you expect some of that to come from a rebound in CEC? Or is that based on continued growth in the Reliability markets?

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

Sure, Matt. It's a good question. I'm glad you asked. Not a huge change Q1 versus full year. I think Q1 at the midpoint is down about 1%, at the midpoint full year up 2%. So a little bit of a back-half load. But as I think about the whole business, there's a lot of moving pieces. And so let me just break down a few of them that kind of illustrate what's happening.

If you look at – maybe rewind a year ago. What we started to see in probably June of last year was softening consumer end markets. We saw it in the consumer device business within Agility. We also saw it in the lifestyle business. As investors, you didn't necessarily see it in lifestyle because we had so much share gain, but the underlying markets were soft. We haven't yet lapped tough comps in those consumer end markets because we really didn't see things soften until June timeframe.

So as we look ahead here to Q1, which is our June quarter, we'll have pressure in both lifestyle and consumer devices, just on the continuation of what we have seen over the last nine months being fairly soft end markets. So a bit of a tough comp in those businesses.

I think everybody sort of expecting enterprise IT spending to be a little bit soft. We're expecting that in the first quarter. What we're expecting in the second half within that CEC business, strong cloud growth. That's driven – okay, the markets will be what they will be, but we have fairly significant share gain expected in the second half and as we ramp on that, that will give us tailwind in the CEC business.

And then if you look at the three pieces within Reliability, all of them have growing businesses with some ramps in the second half. The health solutions business is doing well. I think we'll continue to ramp as we move into the back half of this year for that group. The renewable energy piece within Reliability is doing well and continues to ramp, and we continue to see strong take rates on our next-gen mobility portfolio within automotive, things like EV and ADAS continue to do well, and we're continuing to ramp there.

So it's kind of the mix of the business, softer Q1 first half driven by consumer. And I think as we lap those comps, things get a little easier on the consumer side, and we have some nice ramps in the hopper for the back half of the year, in particular, in Reliability.

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

Q

Okay. Thank you. That was helpful. And then just regarding the expectations for margin improvement within Reliability as you progress through fiscal 2024. What are the key drivers of that?

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

A

So it will be similar to the inventory situation, it will be a gradual improvement in Reliability. We're making a number of investments in that business right now, as Revathi had pointed out, really the last couple of quarters. which has put a little bit of pressure on margins. I think the other challenge in Reliability at the moment is we continue to suffer from the larger node semiconductor shortages, which means you have, in some cases, idle resources. And that's been a challenge for us really over the last year. You don't want to take high-quality resources offline, you have to be ready when stuff arrives. And again, we have a number of ramps in that business that we need to make sure that we're well ready and funded for, but it will be a gradual improvement as we move through the year. I think it will be improving chips. It will be coming up to rate on ramps and better absorption.

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

Q

Okay. Great. Thank you.

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

A

Thanks, Matt.

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**Operator**: Thank you. [Operator Instructions] Our next question comes from Shannon Cross, Credit Suisse. Shannon, please go ahead.

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**Shannon Cross**
*Analyst, Credit Suisse Securities Research*

Q

Thank you very much for taking my question. I'm curious now that we're getting closer to the IRA funds starting to flow and hopefully some clarity on who's going to benefit where? Can you give us any color on how you're thinking about it within your renewables segment? Thanks. And then I have a follow-up.

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

A

I'll tell you, Shannon, there is going to be a very well-executed conference call in about 20 minutes from the Nextracker team and they can probably better cover IRA than I can. I'm half joking. They probably won't say a whole lot either because it's still taking shape. I think we've been talking about clarity on that for quite some time.

You have a government agency that has been tasked with adjudicating the details of all of that big complicated bill. We thought it was going to be clarified in December, and then we thought it was going to be clarified in January and then February, and here we are, we're still a little bit ambiguous.

What I will say is we do know it is a tailwind for the industry. It helps with volume, and it probably helps with margin. We just haven't really been able to figure out exactly how it's going to manifest itself in the P&L, other than to say it's going to be a good guide. It will be a good guide for core Flex, and it will be a good guide for Nextracker.

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

And Shannon, where we're clearly seeing – outside of Nextracker, where we've seen already both volume and equipment ramps going in, in North America for residential solar customers. We're seeing some push in the EV business as a result of it also charging stations. So we are clearly putting in investment for program ramps with our customers on revenue growth driven by the IRA. So I'd say that the benefit – so the volume benefit, we are starting to see that already in those areas outside of Nextracker. I'd say in terms of margin benefit, I think that's where the noise still exists in terms of who exactly is going to see which part of it.

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**Shannon Cross**
*Analyst, Credit Suisse Securities Research* Q

Okay. Thank you. And then not to beat a dead horse here, but just on the cash return side of things. If look at you've got $3.3 billion of cash. You've got $600 million of cash flow generation this year. I assume you're probably going to do a secondary once you get through the six-month period that about $500 million given where Nextracker group is trading. So that gets me to close to $4.5 billion worth of cash.

I understand that you're saying that you want to buy back more stock, but why not – what's precluding you from saying we're going to do a $2 billion share repurchase. So we're going to be in the market. We're looking at $250 million, $300 million a quarter. Just to give investors and those of us trying to forecast some idea of the magnitude that you're thinking? Thank you.

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

Yes. It's a great question, Shannon. And I really don't want to dodge it. So I'll just tell you. Our capital allocation priority is definitely share repo right now. But similar to the Nextracker transaction, which we announced our intentions on that thing two years and a quarter ago. Sometimes, it takes a little bit of time to fully work, how are you going to operationalize things fully through the system? There are other impediments that the Street doesn't necessarily see. But share repo is definitely a priority for the business right now. We'll do more in Q1 than what we did in Q4. And you'll see another reauthorization following our Annual Shareholder Meeting here in August. So that will be a marker point but we hear you.

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

And Shannon, I think – just the only thing I'd add is, I think investors clearly have seen how we have done well with our capital allocation strategy. Our timing has been good in terms of how we have executed on this. And so without giving very specific numbers on what and when we are going to do, I think the commentary and the commitment to, how we're going to – the use of cash, I think, is the clarity that we're providing – and without giving the exact numbers, which doesn't make sense at this point in time to talk about. But that's our commitment, and we have done it well in the past, and I think investors will know that we'll be – we'll continue to do it that way within the next year.

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

A

Just like we did with the Nextracker IPO, which is why I mentioned that I think we threaded the needle on that.

**Shannon Cross**
*Analyst, Credit Suisse Securities Research*

Q

Great. And just to clarify, nothing's changed on your thoughts about Nextracker should be a standalone business at some point here, though.

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

A

I absolutely believe it should be a standalone business.

**Shannon Cross**
*Analyst, Credit Suisse Securities Research*

Q

Okay. Thank you.

**Operator**: Thank you. The last question comes from Paul Chung, JPMorgan. Paul, please go ahead.

**Paul J. Chung**
*Analyst, JPMorgan Securities LLC*

Q

Hi. Thanks for taking my question. So just on the year, you finished at a record here at 4.8%. You mentioned [ph] guide point of possibly (00:41:44) exceeding 5% for the first time. You're seeing some nice upside from product mix shift though. Anything else you want to kind of point out that maybe driving some structural up-tick here? Any automation methods you're implementing? And where do you kind of see longer-term margin targets with the portfolio today?

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

A

So Paul, I'll start and then maybe Paul Lundstrom can jump in. I'd say we've been consistent over the last few years when we have talked about, how margin will improve for these businesses, right? And we have talked about two things. One is continuing to change the mix in the kinds of businesses that we'll pursue within our six segments, which is a very important part of what we look to do. Because we have said that our available markets are really large within these businesses, and it's up to the business leaders there is to move the mix. So we measure that consistently. We look for bookings movement in terms of margins. So mix is a big part of it.

On terms of operations side, absolutely, yes, we have been very good at the kinds of investment we make in automation. So it's not just automation for the sake of automation, right? We are very, very prudent in terms of where we invest in automation, and we have a very good futuristic plan of how our factories will look like. You've seen that from the kinds of awards we have won for manufacturing excellence.

So operational efficiency is definitely driving some of the margin improvement that you've seen in the last year, I would say our manufacturing plants are operating the best they've ever operated at, and we expect that, that will continue to improve every year because automation is improving every year. So it is from both sides that we're seeing margin improvement, Paul, and I'm not willing to give any new targets that we haven't already shared with you that are consistent for FY 2024-2025.

**Paul J. Chung**
*Analyst, JPMorgan Securities LLC*

Q

Great. Thank you for that. And then, my follow-up is, as you kind of move to these higher-margin products across health care, auto, industrial, are you seeing more appetite for more complex products, lower volume type products, opportunities there that come at higher margins. Do you expect to kind of take more share from some of the smaller EMS players here in the US as a result that kind of specialized on some of these higher hurdle rates? Are you being more competitive there? And any displacements you want to call out? Thank you.

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

A

Yeah. So Paul, what I would say is I don't think we are at share from smaller EMS. But what we definitely see is each one is a little different. So for example, in industrial, we do a lot of more complex products that we – and lower volume products that tend to be higher margin, right? So you see that play out in the industrial space.

In automotive, we are seeing more complex products, which is the combination of the EV platform products that we own and the ones we make for our customers but those are higher volume, and it's all about getting the automation right, getting the footprint correct and make sure you stabilize that program as it ramps up, so you can kind of make good margins through the cycle and health is similar to automotive that way.

Our cloud businesses, in general, have been all about getting to scale very quickly and then maintaining it that way, so we can drive the efficiency and the improvement by a high level of automation. So I'd say it depends on the business in terms of volume and mix that drives the margin, I would say industrial tends to lean towards kind of lower volume, more complex products. Automotive is getting more complex. The cloud is getting more complex, but they're all higher volume also. So I'd say each one is a little different. There's not a one-size-fits-all.

**Operator**: Thank you. There are no further questions at this time. Please proceed.

## Revathi Advaithi
*Chief Executive Officer & Director, Flex Ltd.*

Thank you. So on behalf of the Flex leadership team, I just wanted to give a thank you to all our customers and our shareholders for your support. And then I want to thank the Flex team across the globe for continuing to work and their dedication and contributions to the business. So thank you all. Thanks for joining us today.

**Operator**: Thank you. This concludes today's conference call. Thank you for joining. You may now disconnect.