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Flex Ltd. (FLEX)

Q1 2025 Earnings Call

CORPORATE PARTICIPANTS

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

Revathi Advaithi
Chief Executive Officer & Director, Flex Ltd.

Paul R. Lundstrom
Chief Financial Officer, Flex Ltd.

Jaime Martinez
Senior Vice President of Finance-Reliability Group, Flex Ltd.

OTHER PARTICIPANTS

Samik Chatterjee
Analyst, JPMorgan Securities LLC

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

George Wang
Analyst, Barclays Capital, Inc.

Steven B. Fox
Analyst, Fox Advisors LLC

Ruplu Bhattacharya
Analyst, BofA Securities, Inc.

Jacob Moore
Analyst, KeyBanc Capital Markets, Inc.

Mark Delaney
Analyst, Goldman Sachs & Co. LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good morning and thank you for standing by. Welcome to Flex's First Quarter Fiscal Year 2025 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-Investor Relations, Flex Ltd.

Thank you, Daryl.

Good morning and welcome to Flex's first quarter fiscal 2025 earnings conference call. With me today is our Chief Executive Officer, Revathi Advaithi; our Chief Financial Officer, Paul Lundstrom; and our soon-to-be Interim CFO, Jaime Martinez. We 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 Factor section in our most recent filings with the SEC. Note this information is subject to change and we have undertaken no obligation to update these forward-looking statements.

Please note, unless otherwise stated, all results provided will be in non-GAAP measures and all growth metrics will be on a year-over-year basis. And 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 morning and thank you for joining us today.

Starting off with our results on slide 4, we had a solid Q1 with revenue coming in at $6.3 billion, slightly above our prior expectations. In addition, our adjusted operating margin also came in better at 4.8% and we delivered $0.51 of adjusted EPS. I'll talk about what we are seeing in our key end markets in a moment. But overall, I'd say the trends are following our previous expectations. Also last quarter, we mentioned that Q1 would mark the start of multiple large program ramps across our cloud, power and automotive business. As expected, we made strong progress. And as these programs begin to generate revenue, we expect continued tailwinds in Q2 and through the back-half of the fiscal year. Overall, the macro environment remains very dynamic and, given it was just Q1, we believe it's prudent to maintain our current outlook for the full year. I'm proud of our strong execution this quarter and the positive results bolster our confidence in achieving our full-year guidance.

Now turning to slide 5, looking at some of our key end markets. The AI transition in the data center continues to drive strong demand for our cloud solutions and our CEC business, as well as demand for our power products in our industrial business. As you recall from our recent Investor Day, we offer an end-to-end cloud IT manufacturing solution, combined with vertically integrated services, and our comprehensive data center power product portfolio. Simply put, our cloud offering addresses 80% of the data center and is enabling our customers to move faster. Our power products and breadth of services are truly differentiated, which provides value to our customers and is fueling growth for Flex. This combination has clearly positioned us well for the AI-driven technology transition happening from grid to chip and from the cloud to the edge. It's also one of the key aspects of our EMS plus product plus services long-term strategy.

Now, moving to automotive. Some of the latest industry research has indicated global vehicle unit expectations will soften a bit for the calendar year. However, we continue to expect to outperform the market based on both new wins and increasing automotive content. Clearly, there are concerns about the pace of EV adoption. However, we will typically be less affected by the recent change in EV sentiment as the majority of our automotive revenue is agnostic to the powertrain. Overall, we believe the longer-term transition towards electrification will continue. Additionally, we see increased interest in hybrid technology which may be an important bridge in this transition. For Flex, both EV and hybrid offer content gain opportunities as they require additional power systems compared to internal combustion engines. So taking a step back, our combination of advanced compute solutions and power products, many of which are Flex IP, further strengthens our competitive differentiation.

Now, looking to digital health, we continue to see strong medical device demand balanced against the continuing soft medical equipment market, which has been the case for several quarters. There are some signs we're approaching a near-term supply/demand equilibrium. However, the timing of the full recovery remains uncertain. The important part here is that there are significant technology changes in the healthcare industry, including increasingly complex devices combined with shrinking form factors. These changes translate to strong long-term opportunities, and we remain well-positioned to serve these markets.

Now, you can see by our results, we're executing very well through a highly dynamic cycle. We're also taking this time to build our own strong foundation and prepare for the future in key markets with longer-term opportunities. This strategy has and will continue to deliver record margin expansion, double-digit EPS growth and strong cash generation. We are very excited about our future.

Finally, as you probably saw in our earnings release, Paul Lundstrom will be leaving to pursue a new opportunity with a PE-backed private company. Paul had been a great partner to me and a strong leader for the organization. On behalf of the entire team, we wish him well in the next stage of this journey. Jaime Martinez, SVP and CFO of our Reliability Group, will step in the interim role as we conduct a thoughtful search for a permanent CFO.

With that, I'll pass the call over to Paul and Jaime to take you through our financial update. Paul?

Paul R. Lundstrom

Chief Financial Officer, Flex Ltd.

Okay. And hey, maybe I'll just break script from just a quick minute to say the last four years have been absolutely fantastic. I have really enjoyed being part of this business transformation and, of course, being part of the team. I think the culture here at Flex is truly something special.

So, with that, I'll begin on the first quarter performance on slide 7. First quarter revenue was $6.3 billion. That was up 2% sequentially and down year-on-year as expected. Gross profit totaled $495 million and gross margin came in at 7.8%, improving 50 basis points year-over-year. Operating profit was $306 million with operating margins at 4.8%, also improving 50 basis points year-over-year. And adjusted earnings per share came in at $0.51 for the quarter, increasing about 9%.

If you look at our first quarter segment results on the next slide, Reliability revenue was $2.9 billion, more favorable than anticipated led by stronger demand in power and medical devices. Operating income was $147 million and operating margin was flat at 5% year-over-year. Margins were in line with typical seasonality. In Agility, revenue also came in better than expected at $3.4 billion, led by strength in cloud. Agility operating income was $179 million, an increase of 23% year-over-year. Through strong execution, mix and effective cost management, the team achieved a robust 5.3% operating margin.

Moving to cash flow on slide 9, Q1 net CapEx totaled $108 million. For the full fiscal year, we expect to maintain our target of 2% of revenue as we continue to invest in future growth and productivity. I'm also happy to report net inventory improved again this quarter. We reduced net inventory by 6% sequentially and 21% year-over-year. We expect continued gradual reductions in inventory in the coming quarters. Free cash flow in the quarter was a very strong $232 million. There was a little benefit from the timing of cash received late in the quarter, so Q2 may be just a little lighter. However, we remain on track to reach our full-year target of $800 million-plus.

During Q1, we repurchased approximately 15 million shares, totaling about $460 million of buyback. We exited the quarter with cash balances of $2.2 billion. And as we have consistently demonstrated, over the last several years, we have and will continue to allocate capital in the best interest of our shareholders.

I'm going to now hand it over to Jaime Martinez, who will walk you through our guidance. Jaime?

Jaime Martinez

Senior Vice President of Finance-Reliability Group, Flex Ltd.

Thank you, Paul.

Please turn to slide 10 for our segment outlook for the fiscal second quarter. For Reliability Solutions, we expect revenue to be down high-single-digit to mid-teens, with trend in cloud, data center power and medical devices tempered largely by macro-driven weakness in core industrial. For Q2, Agility Solutions revenue is expected to be flat to slightly down. This is largely driven by strength in cloud, offsetting continued softness in enterprise IT and non-cloud related network.

Moving to slide 11 for our quarterly guidance. We expect revenue in the range of $6.2 billion to $6.8 billion, with adjusted operating income between $310 million and $350 million. Interest and other expense is estimated to be around $48 million. We expect the tax rate to be around 19% this quarter. All that translates to adjusted EPS between $0.52 and $0.60 based on approximately 411 million weighted average shares outstanding.

Looking at our full-year guidance on the following slide. As Revathi mentioned, given it's early in the year, we're maintaining our full-year guidance. We expect revenue between $25.4 billion and $26.4 billion, with adjusted operating margin between 5.2% to 5.4%, and adjusted EPS between $2.30 and $2.50.

With that, I'll turn the call back to Revathi for her final comments. Revathi?

Revathi Advaithi

Chief Executive Officer & Director, Flex Ltd.

Thank you, Jaime.

Before we start Q&A, I'd like to reiterate our commitment to creating shareholder value through profitable revenue and EPS growth, margin expansion and cash generation. We are aligning our EMS plus product plus services strategy with strong macro and secular drivers, focusing on high-value end markets with significant growth potential. Our ongoing focus on expanding our technical and advanced manufacturing capabilities creates differentiation and positions us for sustained growth and profitability, which will lead to continued value creation for our shareholders.

Thank you again for joining us, and I'll turn the call back over to the operator 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 questions come from the line of Samik Chatterjee with JPMorgan. Please, proceed with your question.

Samik Chatterjee
Analyst, JPMorgan Securities LLC

Q

Hi. Thank you for taking my questions, and congrats on the strong results here. Maybe if we can start with – for my first question, with just a brief rundown on the segments of your business that are still facing headwinds? Sounds like on the industrial side as well as consumer, you're seeing headwinds still. Maybe if you can share your thoughts on where do you think you are in terms of cycling past some of the trough in terms of revenues there? Where is current visibility in terms of seeing improvement in those end markets that you are seeing a bit more and greater headwinds than the others? And I have a follow-up. Thank you.

Revathi Advaithi
Chief Executive Officer & Director, Flex Ltd.

A

Okay, I'll start with that. I'd say that the places we're seeing continued headwind as you describe it would be, definitely, I would say in the industrial, particularly in the renewables space. I would say that's probably the most, I'd say, important one that I can think of that is still feeling some downside risk. So, I would say the industry is indicating that it's bottomed out and the inventory is consumed so we should start seeing an uptick there.

On the consumer side, I would say we have seen softness but we are quite stabilized, I would say, in our consumer business overall in terms of revenue so I feel good about that. And then lastly, I would say the place we see some headwind could be in the telecom space. So, those, I'd say, if you look at our six end markets, those are the places that I would say there is some headwind. But then I'd say, overall, there is really strong tailwind in our cloud, our data center solution, both on the IT space and the power space. Automotive, for us, still continues to grow pretty strong because we're agnostic to the powertrain. And then, health on the devices side, I said, is really strong. So, it's good offset to each other. So, hopefully, that gives you some color.

Samik Chatterjee
Analyst, JPMorgan Securities LLC

Q

Excellent. Thank you. Thanks for that. And, Revathi, one of the questions I've seen from investors come through more recently and likely triggered by some of the actions your company is taking is, are you contemplating any portfolio rationalization in terms of using the opportunity here to look at some of the lower margin businesses within the portfolio and taking more actions to roll them off? Any thoughts on that front, particularly now that you have a stronger sort of first half to bank on any areas of the portfolio that you would be more focused on to look at improving the margins there?

Revathi Advaithi
Chief Executive Officer & Director, Flex Ltd.

A

Yeah. I'd say one thing I've said consistently and I'll stick to that story line is that, within the six business units, our business leaders are paid to keep improving the mix, right? So, the focus on you have to go to better end markets and really focus on winning customers who are ready to pay value and changing your mix within those six business units is something that they do every single day. So, that's one thing I would say.

And then, the second is, you have seen us double down in areas of high growth and better profitability by making clean investments. Like on the data center side, you saw our portfolio around compute and power and the significance of that. So, we have been doubling down in investments there, both product-wise and commercially. The same on services, we talked about $1 billion service business and we're making investments [ph] as that helps (00:16:55) change the mix.

So for me, portfolio rationalization in Flex, at this point, is running the six business units better and changing the mix within that portfolio itself and really driving the high-growth areas like data center and automotive. And that's kind of how I'm thinking about portfolio rationalization, so nothing big in the planning here.

Samik Chatterjee
Analyst, JPMorgan Securities LLC

Q

Got it. Great. Thank you for taking my questions. Thank you.

Operator: Thank you. Our next questions come from the line of Matt Sheerin with Stifel. Please, proceed with your question.

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

Q

Yes. Thank you and good morning. Question regarding the strength that you're seeing in cloud. I know it's coming from both your power business and your traditional business. Could you talk about, I think, you had targeted $3 billion or so in revenue, $1 billion from power and $2 billion from the core business. Is that run rate still right? And in terms of the ramp how many quarters are we talking about in terms of ramping the customers that you've been talking about?

Revathi Advaithi
Chief Executive Officer & Director, Flex Ltd.

A

Matt, thank you for the question. I'd say that let's step back and talk about what we said at Investor Day, right? We said for the data center business, our portfolio today between our IT CEC business and our industrial Power business is around $3 billion. It's $1 billion in power and $2 billion in the CEC space. And we feel very good about kind of the growth trajectory we gave longer-term in the Investor Day. I think we said around a 20% ramp building up to kind of the growth rates we discussed, and then power eventually becoming a $3 billion business. I'd say as an aggregate, this quarter, we grew more than 60% in that space. As we continue to ramp I would say through the year, we have many new programs coming on. I feel good about the 20% growth rate trajectory I gave you, guys, which was kind of a more of a longer-term forecast. So, I don't know, Matt, if I have a quarter-by-quarter playbook. But hopefully, our execution, I would say, shows that we will hit those run rates that we gave you at Investor Day, and we feel very good about that.

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

Q

Okay. Thank you for that. And clearly, a differentiator for you is that power business. And could you talk about cross-selling opportunities and how many of these deals are being won because you're leveraging both of those key skill sets versus that opportunity? And then, the other question regarding cloud is just on inventory. Is some of this business consigned inventory? Because I would have expected your inventory actually start to build as you're continuing to ramp here, so could you talk about the dynamics of that, please?

Revathi Advaithi
Chief Executive Officer & Director, Flex Ltd.

A

Okay, great. Matt, all good questions here. So, let me start on the cross-selling. One thing I've said that in this overall kind of EMS plus product plus services strategy, where we have done most of our heavy lifting to create the portfolio and create the organization to deliver that, we feel really good about kind of the structure that we have created. Within the organization, we have Anord Mardix that delivers critical power. We have an embedded power group. And then, we have the services group that's delivering that $1 billion of revenue today. So, what we will do is we are seeing cross-selling opportunities across data centers, not just hyperscalers but also kind of the [ph] colo-customers (00:20:51). So, we are aligning our organization to make sure that we take full advantage of that cross-selling opportunities. So, we will continue to drive that alignment, making sure that organization has the right structure to be able to execute on those cross-selling opportunities, and is incentivized to focus on these cross-selling opportunities. And so, you'll continue to see us drive organizational change. The last time I did that was four years ago and it's really worked out well for us in terms of organizational change. So, we will focus on cross-selling across the business, and it is an important opportunity.

On inventory, I'd say, we have said this in the past about consigned inventory that those are decisions our customers make. And when we support them in that decision-making, I don't see any significant pluses and minuses that we're kind of discussing in terms of overall revenue or inventory impact to this business, but that's kind of part of our normal run rate. If customers want to go in the direction of consigned, we build the model that way. So, really no change.

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

Q

Okay. Thanks so much for that. And, Paul, best of luck to you.

Paul R. Lundstrom
Chief Financial Officer, Flex Ltd.

A

Thanks, Matt. Appreciate it.

Operator: Thank you. Our next questions come from the line of George Wang with Barclays. Please proceed with your questions.

George Wang
Analyst, Barclays Capital, Inc.

Q

Hey, guys. Yeah, thanks for taking my question. Firstly, just maybe you can unpack some of kind of bolt-on acquisition opportunities on the horizon. Previously, you talked about you guys are looking at potentially kind of power assets kind of fully related to Anord Mardix assets. That's own IP but also kind of through value-added services. So, as you saw the high grade the portfolio kind of shifting towards higher-margin business. Can you give a little bit more color just around those areas since you are targeting maybe in the near-term or medium term to further enhance the portfolio?

Revathi Advaithi
Chief Executive Officer & Director, Flex Ltd.

A

Okay. George, let me – good to hear from you again. I'll start off in terms of M&A. And what I said at Investor Day and the follow-up since I've talked to you the last time, is that we do see an opportunity to continue to look for bolt-on opportunities, as you've described in the power space. We feel really good about our position in both embedded power and critical power. And we also feel good about the capacity expansion that we're driving there that is required to keep up with the growth that our end markets are seeing. That being said, there is bolt-on things that we can do to accelerate this expansion that we're looking for. But as you guys know, we have executed in a very prudent way to M&A in the past, and we'll continue to focus on it in terms of making sure we have the right assets and the right valuation. And it has to drive the thesis which we are looking for, which is the right margin expansion and it has to have great returns for our business. So, that's how we think about M&A.

So we'll be super selective, but we'll continue to look for the right assets to really finish out our power portfolio wherever we need to that we can – that we think we may not be able to do organically. But really, not a huge focus in terms of what we're looking at right now. But if good assets come along, we'll look for it.

Really feel good overall, George, in terms of the second part of your question in terms of what we're driving accelerated growth in terms of the high-growth end markets. We feel that's going well and you can see that in our results.

George Wang
Analyst, Barclays Capital, Inc.

Q

[ph] So, great (00:24:47). I have a quick follow-up, if I can squeeze in quickly. Just kind of [indiscernible] (00:24:53) into holding on the power assets, you talked about kind of $1 billion revenue now, eventually growing to $3 billion. So, that's kind of 3x the run rate, especially the much higher margin kind of mid-teens margins you guys talk about. I think that's still underappreciated by the investor community. Just curious [indiscernible] (00:25:15) fever pitch around the liquid cooling as we sort of transition to Blackwell, maybe the power becomes even more so the critical. So, within power, you're seeing the critical power, embedded power. Can you sort of unpack the driver behind sort of such a strong growth kind of eventually growing to $3 billion? And how does the Blackwell sort of architecture change the underlying sort of revenue driver and margin profile for you guys?

Revathi Advaithi
Chief Executive Officer & Director, Flex Ltd.

A

George, I'd say, whether it's Blackwell or any other proprietary architecture that our customers are driving. We think that the accelerated use of power in this architecture will be really important, right? We are hearing customers go to 80-kilowatt [ph] racks (00:26:04) and that is happening. So, that does – that will drive considerable technology and execution expertise required from both our embedded power and our critical power businesses. And that's why we feel confident about kind of the growth rate we have given you, which is expanding from $1 billion to $3 billion. And I'll always agree with you when you say that we are underappreciated and we need more value, so I have nothing to disagree with that on that.

On the liquid cooling side, I would say, we do participate today in a very clear way with hyperscale customers in terms of liquid cooling solutions, both from a manufacturing and a technology perspective. And the integration of that technology with the embedded power technology will continue to be a key differentiator for us in terms of not just cross-selling but cross-technology pollination between those businesses. So, really feel good about kind of our investments in power and IT overall in terms of data centers. Those are good investments and they're paying off for us.

George Wang
Analyst, Barclays Capital, Inc.

Q

Great. Yeah, thanks for your answer. I will go back to the queue.

Operator: Thank you. Our next questions come from the line of Steven Fox with Fox Advisors. Please proceed with your questions.

Steven B. Fox
Analyst, Fox Advisors LLC

Q

Hi. Good morning. First question, Paul, just show my appreciation for all you've done for the company, I thought I'd ask you about the buyback. You've done a lot through this quarter. What's the thinking on buying back shares going forward, especially since you're already sticking to your $800 million of free cash flow for the year?

Paul R. Lundstrom
Chief Financial Officer, Flex Ltd.

A

Yes. So, we continue to think Flex is a great investment, and we'll continue to lean in on that. More to come over the next couple of weeks. We have our Annual General Meeting coming up. And as per our usual process, that's when the board reauthorizes. And so, you'll probably get a little bit more color in another couple of weeks.

But in the quarter, we bought back about $460 million worth of stock. I think we took 15 million shares out of the count. I was just doing a little bit of a look-back last night, Steven. And I think over the last couple of years, we've taken share count down by about 15%. And so, we definitely are a company that puts our money where our mouth is, and I think we've created a lot of value with our buyback program over the last couple of years.

Steven B. Fox
Analyst, Fox Advisors LLC

Q

Great. Thanks and best of luck going forward. And then, Revathi, there's been a lot of politics in the news the last few weeks, to say the least. A lot of different opinions from governments on how they're going to work through tariffs, maybe different other trade issues. How do you look at globally at your customers' footprint and ability to handle these changes? Is there still an opportunity for Flex to see more wins, et cetera, with customers as some of these tariffs maybe get enacted or don't get enacted? Thanks.

Revathi Advaithi
Chief Executive Officer & Director, Flex Ltd.

A

Yes. Steven, I would say that that is a big part of our conversation with customers is to proactively look forward and really focus on creating plans for them because, with every new number that gets thrown around tariffs, it creates a tremendous chaos in our supply chain. And what we're really good at in the last four, five years prove it is this real focus on executing to these changes and making sure that our customers are prepared. So, it's become almost part of our DNA, unfortunately, right?

And so, even two days ago, I was with a customer having the same conversation about what should be our new strategy if some of these tariffs get implemented and how we can help them execute on that strategy. So, it's become a really common conversation, I would say in every C-suite that I participate in. And every time with new news, we are planning a new set of strategies for our customers to make sure their supply chain is well executed and is resilient to create lots of opportunities for us, not the kind of opportunities we really want. But I would say, this disruption does provide a focus for companies like ours to help our customers really deliver on what they want.

Steven B. Fox
Analyst, Fox Advisors LLC

Q

That's helpful. Thank you.

Operator: Thank you. [Operator Instructions] Our next questions come from the line of Ruplu Bhattacharya with Bank of America. Please proceed with your question.

Ruplu Bhattacharya
Analyst, BofA Securities, Inc.

Q

Hi. Thanks for taking my questions. Paul, it was great working with you and wishing you the best for your next assignment. Maybe I'll start my first question with you. Last quarter, you talked about needing to invest in new program ramps and that was going to impact fiscal 1Q margins. Was that impact less than you had expected?

And I'm wondering if you can give us more details on these new program ramps. Specifically for fiscal 2025, how much of the revenue growth is coming from these program ramps and when do they get to steady state?

Paul R. Lundstrom
Chief Financial Officer, Flex Ltd.

A

Yeah. Well, first of all, I appreciate the comments Ruplu. As for the first quarter, recall the conversations that we had about a quarter ago where we were talking about the sort of the sequential change between Q4 and Q1. And yes, we were anticipating a number of ramps as we sort of stepped into the first quarter. You saw it with CapEx which was up sequentially. I had mentioned about a quarter ago that with CapEx comes period costs associated with doing all the non-capitalizable stuff associated with facilitizing and ramp readiness.

I would say overall spending was a little bit less than what we anticipated. Q1 was frankly better than what I had thought. Really strong margin performance, certainly year-on-year, great to see. As we look ahead, we're going to continue to work the ramps. As Revathi had pointed out earlier, we're going to be sort of moving up with a number of cloud ramps as we go all the way through the year. And so, we will be ramping through the year, but I think that's what's leading to the mix up and the pretty steady sequential margin expansion we're expecting as we progress through the year. So, I would say all systems go at the moment and Q1 was definitely an arrow-up quarter. Very happy with the performance.

Ruplu Bhattacharya
Analyst, BofA Securities, Inc.

Q

Okay. Maybe I'll ask you my follow-up as well, and Revathi and chime in. You reported $440 million and $0.12 above the midpoint of your fiscal 1Q guide, and it looks like you're guiding maybe like $220 million, a $0.01 above the Street for fiscal 2Q, and yet you're keeping the full-year revenue and EPS ranges unchanged. So, I mean the first question is, is there any incremental weakness in the fiscal second half? And, Revathi, if there is incremental upside, where should we expect that in the fiscal second half? Thank you.

Revathi Advaithi
Chief Executive Officer & Director, Flex Ltd.

A

Yeah. I'd say, Ruplu, see, this is fiscal Q1 for us. We executed really well, both in terms of top line and margin performance and feel really good about the full year. I think our Q2 guidance is in line with what we said in the beginning that we're going to see the year gradually ramp in, and that's how we are performing. So, I wouldn't read too much into the guidance. It's early in the year, right? And we feel very good about kind of full-year and how it's playing out right now. And I would say Q2 again shows continued acceleration from Q1, and that's the main thing I would think about it. I would say it makes a lot of sense in early in the year in Q1, even with a $0.10 beat is to really keep full year the way it is. I would say that's the prudent thing to do and that's what we're planning on.

Ruplu Bhattacharya
Analyst, BofA Securities, Inc.
Q

Okay. Thank you for all the details. Appreciate it.

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

Thanks, Ruplu.

Operator: Thank you. Our next questions come from the line of Steve Barger with KeyBanc Capital Markets. Please, proceed with your question.

Jacob Moore
Analyst, KeyBanc Capital Markets, Inc.
Q

Hi, good morning. You got Jacob Moore on for Steve. Thanks for taking the questions. First one for me. One of the core opportunities for Flex for fiscal 2025, I think, was and probably still is driving factory improvements in productivity. Can you talk to how progress against that goal has come along over the past six or 12 months [ph] the viable efficiency gained (00:35:15)? And how much of that opportunity is left to squeeze out this fiscal year?

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

Yes, I'd say this is my – one of my favorite topics for Flex. I would say I'll step back and say, long-term, lots of factory opportunities. Not just because that there is room to improve for Flex but, if you think about the new technology transformations that's happening from a hardware and a software perspective, those will have meaningful impact in terms of driving continuous factory productivity, whether it's in terms of automation or whether it's in terms of AI, manufacturing will see a big impact from that in terms of automation itself.

I would say in terms of how much productivity that's baked in for the year, I think in Investor Day, we showed a little chart that shows that we expect some amount of our margin improvement to come from just our mix shift and then some from productivity gains. We don't break that out and give you the specific details of how much. But as a general guidance, I expect our teams to continue to have pretty significant factory productivity focus and we're executing to that. So, if you look at our margin improvement, some of it comes from mix change and some of it comes from factory. And I'll expect that to flow through every quarter, and that's a very big focus for us.

I don't know, would you add anything to it, Paul?

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

Well, first of all, Steve (sic) [Jacob] (00:36:59), nice to hear you on the call. It's been a long time coming. I'm glad you picked up some coverage. But just to add to Revathi's point, think about the year-on-year just from 2024 to 2025, it's year-to-year, we'll probably have, at the midpoint of our guide anyway, maybe $0.5 billion less revenue but operating profit is, again at the midpoint of our guide, going to be up about $120 million. So, that's a fairly significant volume contraction with very nice operating profit growth. Like Revathi said, part of that comes from mix as we continue to mix into higher-value areas. But of course, a lot of that is just continuing to drive the factory engine and optimize as best we can. And with Revathi, I continue to believe there's tremendous opportunity down the road. Look, we've got a huge factory network and our job is never done. There's always things that we can do to optimize and get better and learn. So, appreciate the question and nice to hear you on the call.

Jacob Moore
Analyst, KeyBanc Capital Markets, Inc.

Q

Understood. Thank you. And then, second one for me and this is a little bit of a follow-up to a prior question related to your core business model. Are there any specific areas that you see additional opportunities to add services and value-added products business on top of a traditional EMS relationship? I'm thinking about something like the ecosystem you've set up for [ph] Server X (00:38:22). Could you identify any other areas where you're looking to apply a similar model, why you like those areas, and the margin effect do you think that could represent?

Revathi Advaithi
Chief Executive Officer & Director, Flex Ltd.

A

Yeah. I would say that the value-added services, as we bucket-ize it, has big opportunity not just in terms of the kind of the data center ecosystem but has big opportunity across all our businesses. So, whether it is positioning product for our customers as they bring product into their factories, whether it is the aftermarket of refurbishing or remanufacturing or taking it to waste, so end-to-end really being able to deliver the whole value proposition for our customers is really important for us. So, whether it is in the health solutions business or whether it's in industrial business or consumer businesses, it's everything from kind of the logistics of it, both the forward and the reverse logistics of it. So, staging of products, it could be everything from kind of the remanufacturing, the refurbishment of it or taking it to waste. We recently announced a small acquisition, a technology acquisition that really helps us do more in that space. So, it applies to all the end markets, I would say. And the big opportunities for us moving forward outside of both consumer and our CEC business is in industrial and health, both large opportunities for expanding services, very profitable. We talked about being around $1 billion today, and we're putting a lot of organizational horsepower behind growing that and accelerating that.

Jacob Moore
Analyst, KeyBanc Capital Markets, Inc.

Q

Great. Thank you for taking the questions. And, Paul, congrats and good luck to you, sir.

Paul R. Lundstrom
Chief Financial Officer, Flex Ltd.

A

Thanks, Steve (sic) [Jacob] (00:40:19). Appreciate it.

Operator: Thank you. Our final questions will come from the line of Mark Delaney with Goldman Sachs. Please, proceed with your questions.

Mark Delaney
Analyst, Goldman Sachs & Co. LLC

Q

Yeah, good morning. Thanks for taking my questions. And, Paul, thanks so much for all of your help and wishing you the best going forward. First question is on the competitive landscape within the industry more broadly and hoping to double-click a little bit more on to what extent, if at all, some of the weaker end market conditions that have seen in areas like telecom, consumer electronics, parts of industrial have resulted in more difficult pricing that Flex is needing to deal with? And if so, does that affect your longer-term margin aspirations at all?

Revathi Advaithi
Chief Executive Officer & Director, Flex Ltd.

A

I would say, Mark, one thing that this kind of, I would say, recessionary environment or weaker end market has really shown for the industry itself is the pricing capability and the margin improvement capability that exists in the industry, right? So, you've seen over the last kind of four to five years, everyone's moved margins up. You have seen more discipline in terms of overall execution. You have seen the focus on not adding capacity when you didn't need it. And all that has played out through this downturn because that was always the question, how does this industry behave in weaker end markets. I would say that the same for us. Pricing has held through because we do see an inflationary environment in across the world so pricing still has to hold through for us. And the focus on really selling value and where we can sell value is very consistent in terms of our operational model. So, I would say, if anything, it only consolidates and strengthens our position in terms of our longer-term margin guidance.

Mark Delaney Q
Analyst, Goldman Sachs & Co. LLC

Thanks, Revathi. And another question on the geopolitical environment. There's been a proposed increase in tariffs from one of the political candidates in the US running for president. And Flex has already shown an ability to support customers with tariffs and then supply chain issues and being responsive in terms of what regions they want to manufacture in. But to the extent there's higher tariffs to import products specifically into the US, maybe talk about to what extent Flex could support that and what kind of capacity you have currently in place in the US? And if that's something you could support customers with relatively quickly or would more investments be needed in order to perhaps enable increased domestic manufacturing? Thanks.

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

Yeah. I'd say, Mark, this is a big topic for us with our customers. And unfortunately, those chaos around tariffs creates opportunities for companies like us. And what the last four, five years has shown is what Flex is really focused on is building supply chain resiliency for our customers. And I've mentioned earlier, just couple days ago, I was with another customer really talking about accelerating product movement for them as a result of the new tariffs that we have heard about. So, Flex really takes this opportunity. We have become really good at this. And again that's not great, I would say, for the whole market but it provides us opportunity because we plan ahead. And then, some of these you can execute faster based on the complexity of products and some of it could take years to execute, right? So, we have been going through this for the last five years and, if anything, this adds more to the mix than anything else to help our customers really plan for these types of issues. So, I would say, we are really focused on this and then, hopefully, it just adds to more growth for us. But it is really important to help our customers build resiliency.

Mark Delaney Q
Analyst, Goldman Sachs & Co. LLC

Thank you.

Operator: Thank you. I will now hand the call back over to CEO for closing remarks.

Revathi Advaithi
Chief Executive Officer & Director, Flex Ltd.

Thank you.

Thank you for joining us. We really look forward to speaking with you again next quarter. On behalf of my entire leadership team, I want to give you a sincere thank you to our customers for their trust and partnership, and all our shareholders for your continued support. And lastly, I want to thank our Flex team across the globe for their continued dedication and contributions. Thanks, everyone.

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