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Flex Ltd. (FLEX)

Q3 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Thank you for standing by. Welcome to Flex's Third Quarter Fiscal 2025 Earnings Conference Call. Presently, all participants are in a listen-only mode. After the speaker's remarks, there will be a question and answer session. [Operator Instructions] And as a reminder, this call is being recorded.

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

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

Thank you, Kevin. Good morning and welcome to Flex's third quarter of fiscal 2025 earnings conference call. With me today is our Chief Executive Officer, Revathi Advaithi, our new chief financial officer, Kevin Krumm. And our recent Interim Chief Financial Officer, 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 statement 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. Please note unless otherwise stated, all results provided will be non-GAAP measures and all growth metrics will be on a year-on-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 morning and thank you for joining us today. So let us begin with results on slide 4. We had a very strong Q3 delivering another record quarterly operating margin and EPS. Revenue came in at $6.6 billion with operating margins at 6.1% and EPS of $0.77. Now, this is the first quarter we achieved operating margin above 6%. And not to jump ahead, we expect a six handle again in Q4. There could still be some fluctuations in the quarters ahead as we work through the current dynamics. But clearly we're performing at incrementally higher levels. It's important to point out this consistent margin improvement comes from strong execution on our strategy to improve mix and efficiency in every business unit across Flex. And that is exactly what drove another quarter of record margin performance.

Pointing out a few other highlights in the quarter. We closed on our previously announced JetCool and Crown Systems (sic) [Crown Technical Systems] (00:03:01) acquisitions, both adding key technologies to our data center portfolio. JetCool expands our direct-to-chip liquid cooling capabilities and Crown Systems (sic) [Crown Technical Systems] (00:03:12) adds to our data center critical power capabilities as well as expanding our opportunities in grid modernization. We're also very excited to join the S&P MidCap 400. Now turning to slide 5. Before I discuss the trends in the quarter, I want to acknowledge that there has been a lot of noise this week. It's early and I think there's plenty for people to sift through in the coming days. In a minute, you'll hear how our data center business grew 45% year-over-year this quarter, and we expect similar growth to continue next quarter.

But the why is important here. Our opportunity comes from the major underlying technology transition towards increasingly dense compute, and this is driven by more than just AI. So, even if you take the most pessimistic view from this week's headlines, we're still headed down this road. This transition will still drive increasing power needs from the chip level and echoing throughout the data center. Also, remember, we have consistently said we expect the multi-year data center CAGR closer to 20%. That's because we have seen these cycles before in the previous data center markets. Lastly, the truth is there's been a lot of noise over the last five years and yet we have continued to deliver. This is because we've improved the mix across our entire portfolio, becoming a more efficient company, and executed better through the cycle. So, whatever headlines comes tomorrow, we'll continue to focus on this strategy.

Now moving on, the trends in Q3 were largely as expected, with some additional strength coming from data center, from health solutions, and consumer-related markets. This quarter, our data center business grew a robust 45% year-over-year despite increasingly difficult comps. We continue to see sustained demand in our hyperscale cloud integration programs and our power portfolio resulting from AI-driven cloud expansion. We're seeing hyperscalers place greater emphasis on tailored solutions and looking for more help from fewer suppliers. Through our EMS plus products plus services strategy, Flex is the only provider whose cloud offering encompasses fully integrated racks, vertical services, and a power products portfolio that spans all the way from the grid to chip.

This comprehensive offering is a true differentiator, and you can see from our growth it's resonating with our customers. As I mentioned before, we saw very strong medical device demand in Q3. To give some perspective, we have exceptional capabilities in FDA-regulated medical technology design and advanced manufacturing at scale. Looking out, we see a diverse set of longer-term opportunities in the medtech space. Of course, this includes medical devices but also the med equipment markets as well as drug delivery technologies where we had a recent win with our GLP-1 injectors. Now, medtech ramps take time but the contracts tend to be long-lived, so our strategy is about building the pipeline for future growth. As we previously mentioned, we're seeing softer near-term trends in automotive.

Still, the longer-term trends towards advanced compute and powertrain modernization remains intact, and we have demonstrated we have market-leading technology and capabilities in both of these areas. So as these trends progress, we're confident we will enable our auto OEM customers to succeed in these important technology transitions. Now, reflecting on the portfolio overall, diversification is an important part of our strategy. Cycles come and go, but we have evolved to better create and capture opportunities in all of our end markets. I also want to briefly address some of the questions we're getting around tariffs. We are frequently asked does more manufacturing shift to the US or does it continue to expand across multiple geographies. Only time will tell, but the reality is that the global manufacturing environment has been in flux for a few years now.

Remember, we have helped our customers navigate through tariffs 1.0 and then COVID, then the supply chain crisis, and an ugly list of other major geopolitical events. Stepping back, Flex is clearly one of the pre-eminent global manufacturing partners. We have been both a facilitator and beneficiary of regionalization trends set in motion by these previous events. We have established massive supply chains and a diversified global footprint. This includes one of the largest footprints in North America with significant capabilities in the US. Now, for Flex, tariffs are a pass through cost, and that is how it played out in the last round. I'd just add there can sometimes be a lag in recovery timing, but it hasn't been a big issue. That's not to say there are no risks, such as potential broader macro impact on slowing volumes.

It is a very dynamic environment and something that we are monitoring closely. The resiliency and adaptability are embedded in our core competency, and as we have in the past, we're ready to help our customers adapt their manufacturing and supply chain strategies. However, the landscape evolves. Lastly, I want to thank Jaime Martinez for stepping in as our Interim CFO. Jaime, you did an excellent job managing this transition and I look forward to your future contributions at Flex. Along with that, I'm excited to welcome our new CFO, Kevin Krumm. Kevin brings very strong financial experience across multiple industries that align with our longer term strategy. He joined us a few weeks ago, but I'm sure he's ready for all the tough questions.

So I'll turn the call over to Kevin, who'll take you through our financial results and guidance. Kevin?

Kevin S. Krumm

Chief Financial Officer, Flex Ltd.

Thank you, Revathi and good morning, everyone. Before I get started, I too would like to thank Jaime. The leadership he has provided throughout this transition has been excellent and I look forward to partner with him as we both help move Flex forward. So thank you, Jaime. Starting with our financial performance on slide 7. Third quarter revenue was up 2% to $6.6 billion. The above expectations growth was driven primarily by our data center, health solutions and consumer related end markets. Gross profit totaled a new quarterly record of $610 million, and gross margin increased 150 basis points to 9.3%, driven by favorable mix improvements across all business units. Adjusted operating income was $399 million, with operating margins at 6.1%, a substantial year-over-year improvement, up 120 basis points.

This was driven by strong gross margin performance and continued cost execution. Finally, adjusted earnings per share for the quarter increased 43% year-over-year to a new Flex record of $0.77 per share. I'd like to reiterate something Revathi said that really stood out to me as I've dug into this company. This consistent margin improvement over multiple years now is coming from improving mix and efficiency in every business unit. It's not just one or two driving it. I think that really speaks to the power of building a diversified portfolio and doing it in the right end markets. You can see this broad based improvement again playing out this quarter as we turn to our quarterly segment results on the next slide. In Reliability, revenue was flat at $3 billion, driven by continued strength in power and medical devices, offsetting auto, which remains challenged by a weak macro environment.

Operating income was $198 million, and operating margin for the segment improved both sequentially and year-over-year to a quarterly record of 6.7% on favorable mix and strong cost execution in all business units. In Agility, revenue was up 4% to $3.6 billion, driven by strong cloud and consumer-related end markets. Operating income was $227 million, with operating margins also improving sequentially and year-over-year to a record 6.3% on continued mix improvements and strong cost execution. Moving to cash flow on slide 9. Free cash flow in the quarter was $306 million, driven by strong, continued working capital management. Fiscal year-to-date, we have delivered $757 million of free cash flow, which firmly positions us to deliver our full year target of $800 million plus. On the topic of working capital, net inventory continued to improve, down 4% sequentially and 20% year-over-year.

Inventory days net of working capital advances are now at a normalized level of approximately 56 days. In the third quarter, we repurchased $200 million of stock, totaling approximately 5.5 million shares and fiscal year-to-date, we have repurchased over $950 million of stock. Third quarter net CapEx totaled $107 million as we continue to target 2% of revenue for full year capital expenditures. Having completed the Crown and JetCool acquisitions, our cash balance at the end of the third quarter was approximately $2.3 billion. Please turn to slide 4 for our fiscal fourth quarter business outlook. For Reliability Solutions, we expect revenue to be flat to down mid-single digits with continued strength in power balanced against a soft automotive landscape. Agility Solutions revenue is expected to be flat to up mid-single digits, driven by continued strong cloud demand. I'll now focus on guidance for the fiscal fourth quarter on slide 11.

For Q4, we expect revenue in the range of $6 billion to $6.4 billion with adjusted operating income between $360 million and $400 million. Interest and other expense is estimated to be around $45 million, and we expect the adjusted tax rate to be around 19% for the quarter, which is in line with our full year expectations. Lastly, we anticipate adjusted EPS to be between $0.65 and $0.73 per share based on approximately 394 million weighted average diluted shares outstanding. Looking at our full year guidance on the following slide. At this point, we expect fiscal 2025 to finish as follows. We now expect full year revenue to be between $25.4 billion and $25.8 billion. Adjusted operating margin to be between 5.6% and 5.7% and adjusted EPS to be between $2.57 and $2.65 per share.

With that, I will now turn the call back over to the operator to begin Q&A.

QUESTION AND ANSWER SECTION

Operator: Thank you. And now we're conducting a question and answer session. [Operator Instructions] Our first question is coming from Mark Delaney from Goldman Sachs. Your line is now live.

Mark Delaney
Analyst, Goldman Sachs & Co. LLC

Q

Yes, good morning and thanks very much for taking the questions. Starting with cloud and recognizing the north of 40% growth from revenue standpoint that you've had for a few quarters in a row now and expecting good growth again next quarter. I am hoping to better understand the pace of the cloud ramp from here and if Flex has seen any change in the timing or magnitude that customers want to build out AI infrastructure over the near to intermediate term, perhaps due to factors like Blackwell supply chain readiness or to evaluate potential lower cost AI training approaches?

Revathi Advaithi
Chief Executive Officer & Director, Flex Ltd.

A

Yeah, Mark, I'll start off. I'd say first is, I think we said in the script that we expect the 40-plus-percent growth to continue in the next quarter too. And then long term, when we gave the guidance for data centers, we said it was around 20%. And the reason we said that is because we have seen these capacity digestion kind of moments in the data center market, at least through my history of the last 25 years of being in this space. And that's why we were giving a longer-term guidance of 20% because that's pretty common in this space. I'd say most importantly, we haven't heard of anything changing from our customers and our suppliers in terms of AI infrastructure buildout and all of that.

I would say particularly in all the noise associated with DeepSeek over the last couple of days, we're really hearing nothing new or different in terms of infrastructure build out other than we expect more applications related to AI as a result of this. Lower cost is good for everyone, and so we feel overall pretty bullish about the infrastructure build out and the continued need for power with dense compute. So, feel good about our next quarter's growth but also our long-term growth that we have given. We think that 20% is a very achievable number for this space.

Mark Delaney
Analyst, Goldman Sachs & Co. LLC

Q

Very helpful. And my other question was on margins, and congratulations on getting to the 6% so much sooner than you previously guided to; I think the prior outlook was to get there by fiscal 2027. You spoke to some factors that led you to get to the 6% already this year. Maybe you could just expand how much is from mix versus some of these other factors like operational efficiencies. And recognizing it's probably early to get fiscal 2026 guidance, but maybe just talk about some of the key variables investors should be considering about whether or not you can sustain the 6% level next year. Thank you.

Revathi Advaithi
Chief Executive Officer & Director, Flex Ltd.

A

Yeah. I think – Mark, I think I said in my opening remarks that we expect next quarter to be 6%. But I don't want you guys to take it to the bank yet because I'm sure there'll be some fluctuations up and down till we stabilize around this level. In terms of long-term guidance, we've always been prudent about our long-term guidance and how we look at that. Our margin improvement has come from two very important stories consistently over the last six years: it's mix and efficiency. And I'm not sure I fully want to break out for you exactly how much is from mix and how much is from efficiency, but I'd say almost every business is focused on their portfolio mixing up and factory efficiencies have been a huge and important part of our overall margin improvement efforts.

So, yeah, we're a little ahead of what we told you in terms of long-term guidance, but not willing to yet give you FY 2026 and revise anything for full year. In a couple months, we'll come back with our FY 2026 guide and then we'll talk more about kind of longer-term margin guide. Kevin, anything to add?

Kevin S. Krumm
Chief Financial Officer, Flex Ltd.
A

No.

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

Okay. Thanks, Mark.

Operator: Thank you. Our next question today is coming from Ruplu Bhattacharya from Bank of America. Your line is now live.

Ruplu Bhattacharya
Analyst, BofA Securities, Inc.
Q

Hi. Thank you for taking my questions. And, Kevin, good to have you on board. Look forward to working with you.

Kevin S. Krumm
Chief Financial Officer, Flex Ltd.
A

Thank you.

Ruplu Bhattacharya
Analyst, BofA Securities, Inc.
Q

Revathi, I wanted to start with a high-level question. I mean, with respect to manufacturing and especially in the US, I mean, with the new administration and policies, whether tariffs or otherwise, some companies may wish to move manufacturing. Can you talk about how much white space does Flex have and how easy is it for you guys to move manufacturing lines around? And is there a way to lower the total landed cost in the US? I mean, how is that possible? Is it a matter of installing more automation? So, I mean, is there a way to drive more manufacturing efficiency in the US?

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

Yeah. I would first say is, Ruplu, for the last six years, we've been moving manufacturing footprint around the world as we've gone through all these rebalancing of supply chains across the world, right? So – and we've done that very efficiently as you can see both in terms of our efficiency and also our metrics of PP&E across the world, so we've been very efficient in how we have managed this. I see all the conversation about manufacturing moving to the US to be similar to that. We've had manufacturing moving to the US for the last few years. And space is not a constraint because space is very easily and readily available in the US. I think the larger issue will be finding people which – labor constraints tends to be the bigger issue in the US more than anything else.

But in terms of landed cost, I'd say I'm very optimistic on this. Even the amount of work that's going on around efficiency, the use of AI in factories, all the progress made around automation, I would say landed cost will continue to come down in the US with all those being kind of added into future projection. So, I'd say biggest focus will be on automation and efficiency. Space is not an issue; it'll be all about hiring people at the right place at the right time if we add more manufacturing to the US.

Ruplu Bhattacharya
Analyst, BofA Securities, Inc.

Q

Okay. Thanks for that. Can I ask you about your data center business? And if you can dig a little bit deeper into that, specifically on the power business now with Crown technologies, how do you see your target audience? And you've had good growth, you're growing 45% and long term you said 20%. But does that 20% rely on you getting new customers or can you grow with your existing customers? If you can just give investors a sense for your target client base on both the power side and on the compute side, is it still just one hyperscale customer or do you have plans to expand? Any details there would be appreciated.

Revathi Advaithi
Chief Executive Officer & Director, Flex Ltd.

A

Yeah. Ruplu, I'd first start by saying is that we have on the kind of system integration side of our business, we've never been one hyperscaler as we work across multiple hyperscalers and I'd say cover most of them in terms of our revenue and our growth associated in that space. The same in power. We cover hyperscalers, we cover colos. So our customer base today is very diversified in terms of data centers. And as you well know, it's a pretty small space, right? There are few hyperscalers, there are a handful of colos and we cover all of them today. So the growth will come from continuing to grow with existing customers and there's a lot of available growth with existing customers. So I see, overall, the big difference being adding more to our portfolio. So what Crown does is increase our capability to participate in power pods in the US that we couldn't do before.

It gives us a utility business to connect from the grid to the data center, which we couldn't do before in the US. That gives us medium voltage capability. So we get some level of growth from adding new portfolio, but all with existing customers because we cover all of them today. So I feel pretty good about how our data center businesses has been set up and we're adding new capabilities like JetCool. So the 45% growth you're seeing today, the long term kind of prudent guidance of 20% is based on portfolio expansion and organic growth in the current space.

Ruplu Bhattacharya
Analyst, BofA Securities, Inc.

Q

Thanks for that. I don't know if I can sneak one more in quick. Kevin, I know it's early days for you, but how do you think about capital returns to shareholders? Prior CFO of Flex had once said that a dividend is not a matter of if, but just when. I mean how are you thinking about this? I mean I know it's early, but any thoughts you have? Thank you so much for taking my questions.

Kevin S. Krumm
Chief Financial Officer, Flex Ltd.

A

Hey, thanks for the question, Ruplu. I'll say that I'll have a better answer for you after three months versus three weeks. But when I look at where we are today and what our capital allocation priorities are, I think the right ones for this business. Flex has stated that their balancing and we'll continue to balance return on capital with investing in the business. We got a lot of opportunities to invest in the business and our priorities of securing organic growth via CapEx, opportunistically looking at shares, we think those are still a good long term return for our shareholders and looking at to add technologies and capabilities via M&A are going to continue to be sort of – will continue to be our priorities as we move forward.

Ruplu Bhattacharya
Analyst, BofA Securities, Inc.

Q

Thank you.

Operator: Thank you. Next question is coming from Samik Chatterjee from JPMorgan Chase. Your line is now live.

Samik Chatterjee
Analyst, JPMorgan Securities LLC

Q

Hi, thanks for taking my question. And Kevin, look forward to working with you.

Kevin S. Krumm
Chief Financial Officer, Flex Ltd.

A

Thank you.

Samik Chatterjee
Analyst, JPMorgan Securities LLC

Q

I guess maybe if I can start a bit more near-term, you did have a strong quarter in terms of revenue, beating your own revenue guide by about $400 million. And you've talked about the strength you saw in data centers amongst sort of the drivers as well as consumer. As we think about F 4Q, why are we not seeing some of that sort of sustainability of that upside into the 4Q numbers, which you'd seem to be sort of implying a sequential moderation in the revenue? Just curious if sort of you're seeing more incremental headwinds just specifically to 4Q in terms of autos? Or is there sort of any concern that there might have been some pull forward that's driving that sequential moderation on the revenue guide for 4Q?

Revathi Advaithi
Chief Executive Officer & Director, Flex Ltd.

A

No. Samik, I would say our Q4 is very much in line with the seasonality that we expect usually between Q3 and Q4, right, which is usually down like 6% sequentially between the quarters. And our guide very much takes that into account. So we think Q4 plays out in terms of mix, very much like Q3, right? Data centers help being very strong, but our Q4 – our guide is very much in line with what we see sequentially. And then on margins, we have said it's kind of flat Q3 around 6.1%, EPS is down sequentially a little bit 10%, but that's mainly due to the tax rate change. It'll still be up 20% year-over-year. So the revenue guide for Q4 is, I would say, pretty spot on compared to our historical levels of seasonality. We have seen even with upside in Q3. So I feel quite good about that guide we're giving you.

Samik Chatterjee
Analyst, JPMorgan Securities LLC

Q

Okay. Got it. And then maybe, Revathi, just to dive into the data center piece back again a bit more in detail. I think we are now seeing different sort of growth forecast for where hyperscalers are spending in relation to sort of traditional GPU clusters versus custom ASICs. And as you mentioned, you work across hyperscalers with some sort of engagement with all. Can you sort of ballpark for us or help us think about how much of your exposure to the hyperscalers or to your data center customers overall is to some of these custom ASIC programs and helping them on that front with racks versus the traditional sort of servers, CPU servers and GPU servers?

Revathi Advaithi
Chief Executive Officer & Director, Flex Ltd.

A

Yeah, I would say I don't think we have broken that out specifically. And one of the reasons being, Samik, as you're well aware, there's only a few hyperscaler customers. We work with all of them and we have not been willing to give that kind of clarity and transparency on their end markets. And that's not for us to do. But you pretty much know what the hyperscalers are doing between GPU and ASICs, right? So but I'd say the larger question, Samik, would be around what I briefly touched with Mark is, we don't think that our exposure in data centers, both for hyperscalers and colo, is impacted in any significant way with all the recent news that you are seeing and most importantly being because we think that the way DeepSeek is working and driving cost down in such a competitive and hyper performance type of open source model is a good thing.

It's a good thing for the industry as a whole because it's going to generate more applications, not – from even the non-mag seven companies and also accelerates efforts towards AGI. So in general, that acceleration towards high-density compute more applications, all that is good. And we have had a lot of conversations with customers even in the last few weeks and we don't see any of that changing. And the same on power, right. Power infrastructure in this country is really weak, the same in Europe. So I would say our forecasts are very much in line with what we're hearing from customers. And I don't see any concern with our exposure on GPU versus ASICs and hyperscale, and I'm not sure I want to give the break out between the two.

Samik Chatterjee
Analyst, JPMorgan Securities LLC

Q

Yeah, no, fair. Thank you. [indiscernible] (00:29:04) Thank you.

Operator: Thank you. Next question is coming from Steven Fox from Fox Advisors results, you line is now live.

Steven B. Fox
Analyst, Fox Advisors LLC

Q

Thank you. Good morning. Maybe just following up on that, it makes sense why you wouldn't break out the silicon exposure. But I was wondering, Revathi, you mentioned in the prepared remarks how you're doing more tailored solutions with the hyperscale companies. Can you maybe give us some color on how that's maybe helping your growth and margins? And then I had a follow up.

Revathi Advaithi
Chief Executive Officer & Director, Flex Ltd.

A

I'd say, if you look at the hyperscalers and how their products are structured, right, whether it is they're using their own silicon or they're using their own kind of cooling technology in terms of how they're configuring their racks. Each one is very unique and different. And also the same on power, right? You would think all of power products are the same, but each one configures and customizes their power applications differently. So, the ability to configure complex products for each individual hyperscaler is really important. And we have seen now with the addition of things like JetCool that that gives us even more engineering capability to customize to what the hyperscalers want, and that's what drives our growth today.

If anything, that gets only stronger with the product portfolio we've added with things like JetCool and Crown. So I'd say, Steve, I feel quite bullish about our – not just our integration capability but our specialty capability to customize for each of our customers.

Steven B. Fox
Analyst, Fox Advisors LLC

Q

Great. That's super helpful. And then, I just had a medical question. So, you're talking about devices, it sounds like, leading the medical growth right now. But how – can you give us a sense for sort of the relative strength of that maybe over the next few quarters and any kind of view on when maybe equipment piece of that business could come back? Thank you.

Revathi Advaithi
Chief Executive Officer & Director, Flex Ltd.

A

Yeah. I would say that first, on med device itself, I mean, what's really driving the growth is just that you see in – that smaller form factors are a huge part of just disease management in general, right? We talk about diabetes a lot, but I don't see med device growth, I would say, going down much moving forward just because we're seeing more increases in terms of chronic devices, more focus on smaller devices. And the complexity of manufacturing those products is what we're very excited about, so devices I feel pretty strong about. On the drug delivery side, we've had some wins around GLP-1 injectors. But again, longer-term to ramp up so that'll take time. On the med equipment [ph] play (00:31:58), we have talked about some slowing over the last few years and particularly as there was excess inventory left over from COVID.

And we think that that has started to stabilize, and through calendar 2025 it'll continue to stabilize. We're not planning for a lot of growth there right now, but we think that'll be – at least it will be muted but will start to recover from there. So, overall, feel really good about health solutions and growth prospects for that business.

Steven B. Fox
Analyst, Fox Advisors LLC

Q

Great. Thank you.

Operator: Thank you. Next question is coming from George Wang from Barclays. Your line is now live.

George Wang
Analyst, Barclays Capital, Inc.

Q

Thanks for taking my question and congrats on the quarter and the guide. Just double click on liquid cooling direct-to-chip, kind of JetCool. Just curious whether the kind of beefed up capability in the liquid cooling could likely lead to more share gains within some of the CSP rack integration. So, can you kind of talk about whether you're already seeing share gains just because of vertical approach through JetCool versus kind of maybe prior had been more focused on air-cooled rack integration?

Revathi Advaithi
Chief Executive Officer & Director, Flex Ltd.

A

Yeah. I would say – George, I would say our 45% growth speaks for itself, right? And you can compare that to relatively what the industry is seeing in terms of whether we're gaining share or not. So without commenting directly on share gain in this space, I would say our overall growth has been very, very bullish. That being said, I would say our acquisition with JetCool just closed, so a lot more to come on that. And then air versus liquid, the industry is going to continue to move from air to liquid. I think we've been very clear about that transition. We've talked a lot about that in the past. That's what drove us to make this decision about investing in JetCool.

Air will always continue to play a role. But with so much power needs and heat generated directly in the chip itself, it's really important to have liquid cooling as an overall part of the solution of the portfolio, and we don't see a better way to solve that today. So, having such high-performance capability from JetCool on liquid cool definitely has changed the conversation in terms of our pipeline and what we're working with our customers. But I don't think that's really in our results today, so I'd say more to come on that.

George Wang
Analyst, Barclays Capital, Inc.
Q

Great. And also just follow up, Revathi, just on the GPU power/embedded power. Can you unpack how much [ph] accretion (00:34:48) you are seeing from the share gain, winning some of the GPU rack in terms of PSU, PDU, versus kind of a overall [ph] pipe (00:34:57) growing, especially as we head into Blackwell, B200, B300 in the back half? Just maybe likely you are seeing increased content per rack in terms of for more power shelves, PSU and how should we think about kind of a which side should have more weight in the medium term just on the embedded power side?

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

Yeah, I would say that I don't think it has changed much in the medium term at all, George. I'd say, yeah, if anything – it's not lower power in terms of these racks. I think it's more content in the overall kind of integration and the solution itself. So I haven't seen any change in terms of kind of overall, I'd say power requirements from the – requirements from our customers itself. And we have said before in our embedded power business, we are working on some very interesting technology, moving up to 100 to 200 kilowatt capability within the rack itself. And those are all kind of just improving content, improving density and all of that as we deal with kind of heat issues and scale issues within the rack itself.

So, George, I'd say no major change. And then the only thing I'd say overall is if you step back and take those noise around kind of AI and what has happened with DeepSeek and see if it changes the industry in a big way. Net-net at the end of the day, compute density is still a big deal. We think lower cost in applications like DeepSeek is a good thing for the industry as a whole because it's going to drive a stronger growth in terms of the market itself. There's going to be more applications that will be developed with this lower barrier cost to entry. So we'll see a lot of new market entrants. And so far because of how expensive it is and how difficult it is to lay your hands on those products. We haven't seen enough growth from non-mag seven companies and we'll start to see a lot more of that.

So we see net-net, this is all good for the industry as a whole. It actually accelerates the move towards AI. The infrastructure spend both on data centers and power associated with data centers, we feel will continue to be very bullish both in the near term and the long term. And so we feel good about kind of our growth projections for this space.

George Wang
Analyst, Barclays Capital, Inc.
Q

Great. Congrats again on the quarter. I'll go back to the queue.

Revathi Advaithi
Chief Executive Officer & Director, Flex Ltd.

A

Thanks, George.

Operator: Thank you. Next question is coming from Steve Barger from KeyBanc Capital Markets. Your line is now live.

Steve Barger
Analyst, KeyBanc Capital Markets, Inc.

Q

Thanks. Appreciate all the great detail you've given. I just want to go back to a high level question. Thinking about cyclicality across the portfolio. What percentage of the business has clear lines of sight to sustainable growth versus the percentage where you have less confidence? And I'm just trying to understand how long it takes before you see a path to both segments consistently showing positive growth.

Revathi Advaithi
Chief Executive Officer & Director, Flex Ltd.

A

I'd say, Steve, first is, that's a very good question. I think we have clear lines of growth for both segments, both Agility, and Reliability, there we haven't grown particularly on some consumer related end markets. We have chosen not to grow, right. We have made decisions around our portfolio and our mix shift and we are choosing where to grow and where not to grow. And that's a very important part of the mix shift you have seen in our overall portfolio. So I've always said growth in this space is not hard to achieve, but the right kind of growth is very, very important. So we pick and choose where we want to grow. The other thing, Steve, I'll point out is, think about all the volatility that's happened over the last five years. So what I want to tell you that every business has a clear line of sight to growth, you see all those new noise that gets introduced that really is hard to project and forecast.

I would say a perfect example is automotive, right? We have had really fantastic share growth, good technology that has really driven our growth directly with the OEMs. But there's a lot of product transitions and noise in the automotive space, which will make the next few years interesting in terms of projecting what kind of growth to get. So I'd say I feel very good about our pipeline and where we want to grow and a clear line of sight for growth. What I can't really commit to is how the macros will impact things and that's been the hardest, I would say, for us more than anything else. And you know better than me that that's really hard to forecast at this point in time.

Steve Barger
Analyst, KeyBanc Capital Markets, Inc.

Q

Yes, it's been a very tough cycle. My second question is kind of related to what you were saying about where you want to choose to grow. I understand not wanting to talk about FY 2026 margin yet, but with a lot of margin progress already accomplished. I'm just curious about next steps, meaning, are there still large pools of dollars with less favorable margins, so there's big opportunities? Or is the incremental benefit from here going to come from trimming or fixing smaller lines of business with less favorable unit economics. I'm just trying to get a sense of where this can go from here?

Revathi Advaithi
Chief Executive Officer & Director, Flex Ltd.

A

Yeah, I would say, the same question was asked three years ago when we improved our margins from like 3% to 4.5%, 5%, there's more to grow. And then we talked about, 6% and obviously we've gotten there a little faster. This year will be around between 5%, 6%, and 5%, 7% overall – our overall operating margin. So I feel very bullish. There's lots more opportunities both in terms of mix and efficiency in this business. It has been all about selling value to customers to make sure how you run towards complexity and gain value on those is our focus on all our portfolio. And then we have clearly focused on a few things, one is adding more products to key end markets like data centers and automotive, so that drives more margin improvement and we're in the beginning stages of that.

The second is focusing more on mix shift using our services business, value added services business. That is also a margin improvement for us. So I would say the margin story is yet to be written and there's a lot more to be done, I would say not just in terms of mix driven by value added services and products, continued efficiency in our factories with all the robotics and automation. So yeah, we are ahead of what we told you guys. But we'll come back with some revised estimates here in a few months for FY 2026. So Kevin, you would add anything to add?

Steve Barger
Analyst, KeyBanc Capital Markets, Inc.

Q

Understood.

Revathi Advaithi
Chief Executive Officer & Director, Flex Ltd.

A

Yeah. Thanks, Steve.

Steve Barger
Analyst, KeyBanc Capital Markets, Inc.

Q

Thanks very much.

Operator: Thank you. We reached end of our question and answer session. I'd like to turn the floor back over for any further or closing comments.

Revathi Advaithi
Chief Executive Officer & Director, Flex Ltd.

Yeah, I'd just say thank you. And I just wanted to close and thank the Flex team for all their hard work and contributions and also to our customers and our suppliers and then, most importantly, our shareholders for all their support. So thank you, everyone. Have a nice day.

Operator: Thank you. That does conclude today's teleconference webcast. You may disconnect your lines at this time and have a wonderful day. We thank you for your participation today.