

October 18th, 2018

Company Name: FLEX Ltd.

Zachary Girvin

Sector: Information Technology

Industry: Electronic Equipment

Current Price: \$11.97

Target Price: \$13.60

Company Description: Flex Ltd. has grown into a global powerhouse in the electronics manufacturing services (EMS) and original design manufacturing (ODM) industry. They help startups and existing companies take new ideas to market through an intensive process. They also implement electronic enhancements into existing production lines to increase efficiency and manufacturing speed.

BUY

Current Price: \$11.97
 Target Price: \$13.60
 Market Cap: 6.37B
 Beta: 1.17
 LTM ROIC: 7.7%
 Current Debt: \$2920M
 Market Cap: \$6318M



Thesis: On the earnings call released in April of this year, Flex had missed earnings for the quarter which dropped the price of their stock. With a promising innovation for the ODM industry, Sketch-to-Scale was trademarked in March and looks to boost the company from the 52-low they have just reached. Flex also has a wide base of industry leading subsidiaries that have helped to fuel growth and will likely show a positive result for Flex moving forward.

Catalysts:

- Earnings Call on 10/25:
- **Sketch-to-Scale ROIC continuation**
- A reduction of capital expenditures and operating costs in the long run to allow for higher growth.

Earnings Performance:

Flex Ltd. has decreased in revenue for the past two years, 2016 and 2017, and this has been a main driver in the lowered Market Cap as seen below. Revenues have pushed up since, but a significant event in April, a release of their earnings showed a revenue that missed analyst's expectations, and therefore hit the stock price hard. Revenues were expected to be up for a

FLEX US Equity									
ADJ	Flex Ltd								
Key Stats	1/S	B/S	C/F	Ratios	Segments	Addl	ESG	Custom	Financial Analysis
Adj Highlights	GAAP Highlights	Earnings	Enterprise Value	Multiples	Per Share	Stock Value			
In Millions of USD	2015 Y	2016 Y	2017 Y	2018 Y	Current/LTM	2019 Y Est	2020 Y Est		
12 Months Ending	03/31/2015	03/31/2016	03/31/2017	03/31/2018	06/29/2018	03/31/2019	03/31/2020		
Market Capitalization	7,140.1	6,570.6	8,925.8	8,623.5	6,318.6				
- Cash & Equivalents	1,628.4	1,607.6	1,830.7	1,472.4	1,254.6				
+ Preferred & Other	35.4	34.7	33.7	0.0	0.0				
+ Total Debt	2,071.0	2,774.6	2,952.1	2,940.6	2,920.0				
Enterprise Value	7,618.2	7,772.2	10,081.0	10,091.7	7,983.9				
Revenue, Adj	26,147.9	24,418.9	23,862.9	25,441.1	25,856.8	27,557.1	29,106.6		
Growth %, YoY	0.2	-6.6	-2.3	6.6	7.8	8.3	5.6		
Gross Profit, Adj	1,545.3	1,608.1	1,574.5	1,662.7	1,625.7	1,806.9	1,990.9		
Margin %	5.9	6.6	6.6	6.5	6.3	6.6	6.8		
EBITDA, Adj	1,209.3	1,137.8	1,168.3	1,196.1	1,155.5	1,388.4	1,598.3		
Margin %	4.6	4.7	4.9	4.7	4.5	5.0	5.5		
Net Income, Adj	572.2	488.6	400.6	406.5	304.8	653.2	790.3		
Margin %	2.2	2.0	1.7	1.6	1.2	2.4	2.7		
EPS, Adj	0.97	0.87	0.74	0.76	0.56	1.23	1.51		
Growth %, YoY	40.0	-10.6	-15.0	2.8	-21.7	61.5	23.0		
Cash from Operations	794.0	1,136.4	1,149.9	753.6	-56.7				
Capital Expenditures	-347.4	-510.6	-525.1	-562.0	-609.4	-635.0	-537.5		
Free Cash Flow	446.6	625.8	624.8	191.6	-666.1	620.0	846.5		

multitude of reason including subsidiary success and the expectation of Sketch-to-Scale to drive revenue for the firm higher from March. EBITDA margins have dropped in the past two years which is a slight concern, but these are expected to increase in the coming fiscal years due to the increased revenues from newly acquired companies. A large impact on this company's stock price have been revenue and capital expenditures, which is typical for this industry, but FLEX should soon see an increase in revenue and a reduction in capital expenditures. Also as seen below cash levels have decreased slightly in part to paying off debt and using cash to partly finance acquisitions

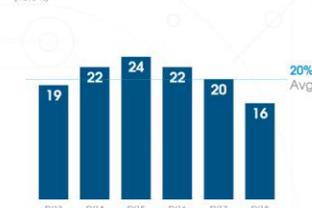
FLEX US Equity		96) Actions	97) Export	98) Settings	Periodicity Annual				
ADJ Flex Ltd									
1) Key Stats		2) I/S	3) B/S	4) C/F	5) Ratios	6) Segments	7) Addl	8) ESG	9) Custom
11) Adj Highlights		12) GAAP Highlights	13) Earnings	14) Enterprise Value	15) Multiples	16) Per Share			
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Cost of Capital:

Flex holds a core advantage over its competitors when it comes to sourcing capital for expansion. With a WACC that is over 100 basis points lower than their competitor's average, they can access cheaper capital and they do not need as high of returns to fuel their growth. This stems from two main parts, the first being their Investment grade debt rating from Moody's of BBB. This is shown throughout their investor presentations as if to showcase that they have a strong backing and are able to cover the outstanding debt. Another reason for this cheap WACC is a wide base of companies they own and can leverage for capital. These underlying companies including NEXTRACKER and AGM Automotive are seen as leaders in their fields and provide the financial backing that this large firm requires to access capital.

Guided by our Return on Invested Capital

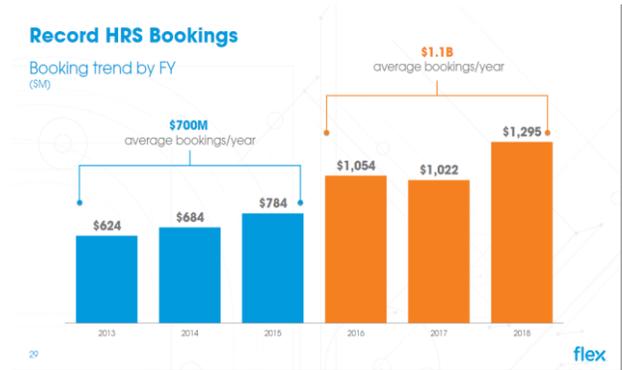
Return on Invested Capital*



- FY18 investment year leads to near-term pressure
- ROIC remains well above WACC

Revenue:

This is a large issue for Flex as it is unknown when they will see strong and constant growth in revenues. I believe that in their earnings call next week, revenues will be back up and this is a prime catalyst for a surge in stock price. As I have hinted to and will soon talk about, FLEX has many companies all which use some form of their EMS have been producing positive revenues, and have also been growing rapidly. A large business segment of Flex is their Communication and Enterprise compute (CEC) and their Consumer Technologies Group (CTG). This segments have posted decreased revenues in 2016 and 2017, but are correcting themselves and will likely beat expectations. Their other segments include High Reliability Solutions (HRS) and Industrial & Emerging Industries (IEI) which constituted 20% and 23% of Q1 FY 2019 revenues, respectively. The good news about this is that these are the two segments which are growing the fastest and will help beat revenue goals for the coming quarters. The bottom line is that all of these segments are doing well, regardless of any short term slow downs



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Subsidiaries:

One company that FLEX owns that caught my eye was NEXTRACKER. This company is a part of their Industrial and emerging Industries segment and looks to continue building under their parent company. They are the leader in the solar industry and have been improving their market share tremendously over the past few years. One reason behind this is their CEO, an RPI grad Dan Shugar. He is a brilliant engineer with a mind for solar electricity and has been a part of numerous solar companies before, improving each one of them.



NEXTRACKER is based out of California and holds a tight grip on the solar industry. FLEX recently acquired them, a significant amount of their CAPEX but as seen large growth in that business group. Investments like this are why FLEX hasn't been breaking records in revenue growth, but once all of these new capital expenditures start to produce returns and efficiency rises with decreased costs, FLEX can push even further past my target price of \$13.60.

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Q1 FY2019 Operating Performance by Business Group

Business Group	Q1 FY19			Target Adjusted Operating Margin Range		Notes
	Rev\$ (\$M)	OP\$ (\$M)	OP% (9%)	Target	Actual	
CEC	\$1,954	\$46	2.4%	2.2%	3.5%	Improving business mix while continuing investments in engineering for hyper-scale and edge data center solutions
CTG	\$1,808	\$27	1.5%	1.5%	2%	Margin pressure from product mix, new program ramps, and sustained Nike losses
IEI	\$1,446	\$51	3.6%	3.6%	4%	Demand softness in home and lifestyle, semicap equipment, and energy during the quarter
HRS	\$1,216	\$94	7.7%	7.7%	9%	Ramping new customers and programs while expanding autonomous vehicle and connectivity capabilities
Corporate Services & Other ¹	--	(\$30)	--	--	--	
Total	\$6,424	\$188	2.9%			

Sketch-To-Scale:

This is a single aspect of the company that could drive its success. This offering began to be pushed in March, and I think investors expected to rapid of a turnaround on profits, that when the April earnings call came around and revenues missed expectations, investor emotions told them to sell. Well now the stock price is advantageously positioned for acquisition and we should look to buy.

Sketch-to-Scale is a proprietary idea that securely brings a person's idea to life and can handle the whole manufacturing and operation of its distribution. Flex is a leader in creating operating efficiencies with companies and Sketch-to-Scale is just one way of how they implement this idea from the beginning. There is true promise as this can be applied to existing businesses and they can bring new ideas to market with help from the industry leader.

Macro Outlook:

Looking at the LTM Price Chart, it is clear the correlation between the IT ETF and FLEX. Even after the one sharp change in April, both holdings trended similarly. This is good news for Flex because they are a leader in the IT community and cheap right now due to their uncertainty. While IT can be speculative, FLEX is large enough and has a quality credit rating to believe that this stock will soar in the coming years.



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Conclusion:

Flex Ltd is offering an opportunity to get in cheap on their company. At a 52-week low, the stock is ready to shoot back up to its true value, which the market is not reflecting currently. Many investors are hesitant about their new trademark, Sketch-to Scale, which they are not sure if it will return enough for the amount of capital invested. They have a wide base of revenue streams, but all of them have a relation to the IT sector. If this sector continues to grow, which has proven to be one of the fastest growing sectors, I think that Flex has put themselves in a great position for the future.

Flex Ltd (FLEX)

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NEUTRAL

Analysis by Zachary Girvin
10/18/2018

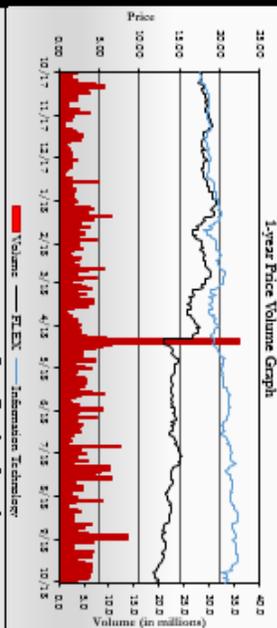
Current Price:
Dividend Yield:

\$11.97
0.0%

Intrinsic Value
Target Price:

\$11.83
\$13.60

Target 1 year Return: 13.6%
Probability of Price Increase: 45%



Description
Flex Ltd provides design, engineering, manufacturing, and supply chain services and solutions to original equipment manufacturers worldwide.

General Information
Sector: Information Technology
Industry: Electronic Equipment, Instruments and Components
Next earnings date: May 8, 2018
Market Assumptions: October 25, 2018
Estimated Equity Risk Premium: 8.44%
Effective Tax Rate: 21%

Market Data
Market Capitalization: \$6,317.16
Daily Volume (mil): 3.46
Shares outstanding (mil): 532.76
Diluted shares outstanding (mil): 535.80
% shares held by institutions: 30%
% shares held by hedge funds: 78%
% shares held by investors: 13%
% shares held by insiders: 0.84%
Short interest: 1.24%
Days to cover short interest: 1.44
52-week high: \$19.71
52-week low: \$11.63
Volatility: 28.00%

Quarter ending

6/30/2017	1.72%
9/29/2017	2.73%
12/31/2017	3.83%
3/31/2018	2.03%
6/29/2018	-1.62%
Mean	1.87%
Standard error	1.0%

Past Earnings Surprises

Revenue	EBITDA
-14.18%	-14.18%
-22.96%	-22.96%
-5.96%	-5.96%
-11.78%	-11.78%
-23.03%	-23.03%
-17.96%	-17.96%

Market and Credit Scores

Recommendation (STAR5) Value--5	CreditModel Score (Non-Rating)--bb+
Quality Ranking Value--MF	Market Signal Probability of Default % (Non-Rating)--0.52%
Quality Ranking Description--Not Ranked	Short Score--0
Short Score--0	Market Signal Probability of Default % (Non-Rating)--0.52%

Management
McMahon, Michael
Collier, Christopher
Barber, François
Offer, Scott
Humphreys, Paul
Holman, Mark

Position
CEO & Director
Chief Financial Officer
President of Global Operations & Component
Executive VP & General Counsel
President of High Reliability Solutions
President of Strategy, Investments & Markets

Market Compositions Growth

8.32% per annum over 6y	6.43% per annum over 6y
18.73% per annum over 6y	6.43% per annum over 6y
4.03% per annum over 6y	6.43% per annum over 6y
-26.38% per annum over 2y	-8.33% per annum over 2y
1.64% per annum over 6y	6.43% per annum over 6y

Stock Price Growth During T years

1.2%	1.2%
0.33%	0.33%
2.31	2.31
5.2%	5.2%
0.7%	0.7%
1.43	1.43

Peers' Media (LTM)

Peers' Media (LTM)	Peers' Media (LTM)
30.6%	30.6%
18.3%	18.3%
59.2%	59.2%
0.0%	0.0%
0.36	0.36
5.0%	5.0%

Industry and Segment LTM Revenues by Business Segments

China--23%	Communications & Enterprise Computer--30%
Mexico--1%	Consumer Technologies Group--21%
U.S.--11%	Industrial & Emerging Industries--23%
Brazil--10%	High Reliability Solutions--19%
Malaysia--8%	

Porter's 5 forces (Scores are Percentiles)

Jobell Inc.	..
Fritz Solar, Inc.	..
Plexco Corp.	..
SunPower Corporation	..
Sepperson Corporation	..

Profitability

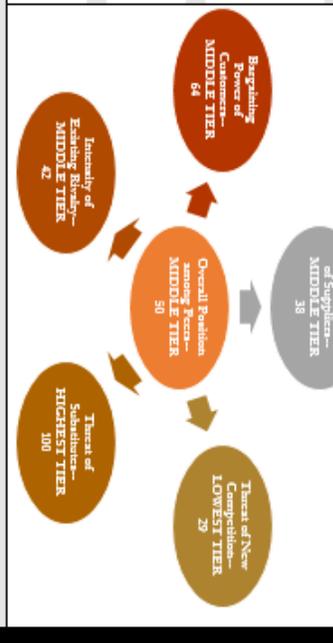
Return on Capital (GAAP)	6.1%	FLEX Historical	9.47%	Peers' Media (LTM)	1.2%
Operating Margin	1%	FLEX Historical	2.17%	Peers' Media (LTM)	0.33%
Revenue/Capital (GAAP)	4.12	FLEX Historical	4.36	Peers' Media (LTM)	2.31
ROE (GAAP)	13.4%	FLEX Historical	16.8%	Peers' Media (LTM)	5.2%
Net margin	15%	FLEX Historical	0.7%	Peers' Media (LTM)	1.43

Invested Funds

Revenue/Book Value (GAAP)	8,844,134,444	FLEX Historical	10,41	Peers' Media (LTM)	1.43
Cash/Capital	20.8%	FLEX Historical	30.6%	Peers' Media (LTM)	30.6%
MW/Capital	5.6%	FLEX Historical	7.5%	Peers' Media (LTM)	18.3%
Operating Assets/Capital	51.3%	FLEX Historical	59.2%	Peers' Media (LTM)	59.2%
Goodwill/Capital	16.1%	FLEX Historical	11.0%	Peers' Media (LTM)	0.0%

Capital Structure

Total Debt/Market Capitalization	0.51	FLEX Historical	0.36	Peers' Media (LTM)	0.36
Cost of Debt	4.3%	FLEX Historical	5.0%	Peers' Media (LTM)	5.0%
CG's Rating (F-score, Z-score, and default Probab)	B	FLEX Historical	3.5%	Peers' Media (LTM)	5.0%
WACC	10.3%	FLEX Historical	9.4%	Peers' Media (LTM)	12.3%



Forecast Assumptions

Revenue Growth CAGR	8%	Empiric Period (13 years)	2.0%
Average Operating Margin	4%	Continuing Period	2.0%
Average Net Margin	2%	Intrinsic Value Distribution--Probability (Upside)=45.6%	
Growth in Capital CAGR	3%		
Growth in Claims CAGR	0%		
Average Return on Capital	7%		
Average Return on Equity	12%		
Average Cost of Capital	13%		
Average Cost of Equity	13%		

