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Flextronics International Ltd. (FLEX)

Investor and Analyst Meeting
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Hello, everyone, and welcome to the 2015 Flextronics Investor and Analyst Day. For all those that are here in person as well as those on the webcast, we're happy you could join us.

Before I kick things off, I just wanted to briefly highlight our agenda. We've broken the day down into three parts. You'll notice from the agenda that there is a common theme that will come across today.

Flextronics sits at the epicenter of technology convergence for the age of intelligence, and we are poised to take advantage of this with our new engagement model, that we're driving differentiation in value in multiple ways – for customers, for shareholders and for our employees.

So part one, we're calling "The FLEX Vision," and it consists of our CEO, Mike McNamara talking about "Supply Chain Solutions in the New Connected World." Tom Linton, our Chief Supply Chain Officer, will further advance the discussion, when he covers what we call "The Intelligent Supply Chain and the Rise of Real-Time Information." Jeannine Sargent, our President of Innovation and New Ventures, will wrap up part one by "Connecting the Dots." We'll then have a break – a brief break and move on to part two.

Part two focuses on "The FLEX Portfolio" and features presentations from all four of our business group presidents. What's really unique about their presentations this year is each one will provide very engaging and, most importantly, real examples of how we are implementing The FLEX Vision that Mike, Tom and Jeannine covered at the start. After Paul Humphries, we'll take another short break.

We'll conclude the day with our CFO, Chris Collier, articulating "The FLEX Value Proposition," followed by some on-stage Q&A. That will conclude the formal part of our event, and then we'll walk across the hallway, over here to the Mercury Room, for reception and further discussion.

At the completion of today's event, we will have digital copies available on our website in the Investor Relations section of our website. And for those of you here in attendance, we'll also have USBs loaded. We'll also have an ongoing Twitter hashtag, #FlextronicsInvestorDay2015 (sic) [#FlexInvestorDay 2015] (2:54), where we will be posting updates throughout the day from the event.

So, before I turn the podium over to – the stage over to Mike McNamara, I just need to quickly cover our formal disclosures. This presentation consists and contains forward-looking statements, which are based on current expectations and assumptions that are subject to risks and uncertainties, and actual results could materially differ.

Such information is subject to change, and we undertake no obligation to update these forward-looking statements. For a discussion of the risks and uncertainties, see our most recent filings with the Securities and Exchange Commission, including our current, annual and quarterly reports.

If this presentation references non-GAAP financial measures, these measures are located on the Investor Relations section of our website, along with the required reconciliation to the most comparable GAAP measures.

And, with that, I’d like to welcome Mike McNamara, our Chief Executive Officer to the stage. Mike?
Good afternoon, everyone, and first thing I’d like to say is, thank you very much for spending the afternoon with us. Hopefully you’ll find these presentations interesting and informative and a real good use of your time.

So there is no doubt as we look at the world today that productivity is increasing at a very rapid rate. If you look back over to the industrial age productivity doubled every hundred years. If you think about the time, the period around the – what we call the modern age, productivity accelerated. More inventions, more people using those inventions and productivity doubled every 40 years.

If we think about the more recent times, and many of us helped actually drive the information age, which was heavily driven by computers and the Internet. It touched more people, more innovations occurred and productivity doubled every 25 years. There is no doubt there is acceleration of productivity going on in the world today.

But if you think about where we are today, it’s built around the intelligence age. And the way we think about the intelligence age is that there are billion and billions of end connected nodes that are smart, that they are intelligent, that they are adapting to the environmental conditions. They are adjusting, they are controlling, they are monitoring. It is the intelligence age, and these are intelligent devices.

It’s what we call the things and we like to think about it as those are the – when we think – talk about the intelligence of things. But this acceleration of innovation and invention coupled with the volume of transactions that these end nodes in terms of the money in billions are actually creating more accelerated productivity and we are in a fantastic period to be able to see that. And those participating in the technology marketplace have a great opportunity to expand the TAM and continue to drive their businesses forward.

The world's economy is about $80 trillion. And if you think about most of the studies, by 2020, it's expected that the TAM, just of the Intelligence of Things marketplace is expected to be about $7.1 billion – $7.1 trillion, sorry, we are getting into big numbers here, $7.1 trillion. It's a great opportunity for us to participate. We expect that by 2020 over 50 billion devices will be attached and when we think about our role in the economy, our role in the marketplace and our role in enabling electronics into many different devices, we are very well positioned to take advantage of this change.

And the opportunities and the solutions of creating real value with this digitized economy are everywhere.

If I give you just one example, in connected cars, if you can just reduce the vehicle collisions by 25%, it's estimated that by the year 2025 that you'll be able to save $200 billion. And it's like that in many industries. And in each one of these industries we're playing in all of them. So this value creation that's out there is creating a great opportunity for us to participate in a very, very strong way going forward.

So without doubt the world is changing. When I think about the world and I think about how we then need to position our company in this new world, we think about building strategies and we think about building the systems, the processes, the organizational structures to be able to respond to the current macro realities.

Last year, when I was up here, I talked about these macro conditions that were driving the strategies of our company, things like the supply-chain complexity and the increased regionalization very important conditions affecting our industry and our company. We think about supply – about the consumers and the middle classes developing all around the world. We think about consumption becoming more distributed.
We have to have a supply-chain that meet that more distributed demand patterns. We have to build products that are more unique to the economies in those – where those new marketplaces are existing. It creates more complex supply chains. It creates faster product lifecycles. It creates more inherent risk in your supply chain because you have more nodes in your supply chain that can be affected by disruptions.

All of these things are – now, we think about building our systems and processes around. Growth of the Asian OEMs, a huge consideration going forward. It's not just the growth of the Asian OEMs in the marketplace TAM that they're controlling and growing in but the amount of innovation that is now coming out of many of the Asian OEMs is actually coming at a pretty stunning rate.

Many of the western OEMs have actually not even realized how much is coming at them and how much innovation potential there is coupled with the size of those economies. There is a huge consideration, as we think about building the strategies of our company.

So without doubt this is leading towards faster product lifecycles. It's leading to more disruptive products. It's leading to new OEMs. I've talked about new OEMs in the past. We've talked a lot about Google in the past. Companies like Google or Baidu or Alibaba – all these are companies that need hardware to be able to really create systems and solutions for consumers that are optimized.

You need hardware and software and content together to actually create optimized consumer experiences and optimized enterprise experiences. So new well-funded companies are now going to be coming into the marketplace that are going to disrupt. And I think about just all this is creating a tremendous amount of innovation that's occurring.

If I think about things that are continually important and things that we're adding to our list of what's on the world is changing, it's corporate, social and environmental responsibility. We have been working on corporate and social environmental responsibility for years just because we believe it's the right thing to do and the right way to act. We believe this has given us a huge competitive advantage as this now becomes on the CEOs' agenda.

Not only do we believe we lead in this, we actually believe we want to be a great global citizen. With 200,000 people around the world, we actually make a difference in the world. And what's equally important is the amount of transparency that exists in the world gives us an opportunity to actually, as we lead to get to build our brand even further. And it actually allows us to protect the brand of the OEM.

And the other thing is the Internet of Things. Everybody has heard about the Internet of Things, over and over and over again. Well, the internet has been around for really long time. We believe the disruption and the opportunity that's been created are the end-points being connected. We call those end-points the Intelligence of Things.

It is the volume of those things that are actually creating the opportunity for companies in the technology marketplace that are in all the industries where those things will now connect. And they will connect through the backbone of the internet of course.

But the opportunity exists in the Intelligence of Things, we believe we're extremely well-positioned with the capabilities that we put in place and we believe this once again will lead to TAM expansion.

A couple of years ago, I put out and showed at this conference the platform. And this is our system for how we compete in the marketplace. We called it the platform because we wanted to continually add capabilities and
competencies that where we could continue to add value for our customers and be able to continue to deal with the changes in the macro-environment in an effective way.

So as a platform, we were to continually build on it and it positioned us very, very well to compete in this new world. There were three layers of this platform that we thought were important. The first layer is a real time information layer. And if we think about that real time information layer, the reason I needed to move to real time is because faster product life cycles, more disruptive products, more distributed inventory around the world.

Revenue hasn’t necessarily gone up for many companies, but the distribution of where the end markets is continually become more challenging, more diversified which creates challenges in the marketplace.

Legacy ERP systems and systems that we particularly – traditionally relied on aren’t – don’t have the architecture, the software architecture, the ability to upgrade that we need to deal with the realities of the faster world. So we actually invented our own system, and we call it Elementum.

An Elementum is a SaaS software company; it's built on mobility, it's built on the efficiencies of the cloud, it's collaborative and it's multi-tenant. It had also -- and it’s all built on modern art -- modern architecture. It has all the attributes that we need to deal and move our company into a modern supply chain.

And as we move forward, we will move all of our systems into real time information and most of it on the back of the apps of Elementum. But this will position us to compete in this new world.

Tom Linton is going to talk a little bit more about it. He’ll be speaking right after me and he'll give you a little bit more details, but at the end of the day, it is our objective to run our information systems live, fast and intelligent.

The second layer was the end-to-end services layer. And we have a lot of different capabilities in this services layer that we continue to add over the years. But as we think about the intelligence age and we think about the Intelligence of Things, we have been very, very focused at two specific aspects of this services layer, which is innovation and engineering.

We've actually developed what we call the Intelligence of Things Ecosystem. We actually have processes, systems, organizational structures, investment to actually source and cultivate innovation that's current in the world.

We don't think it's enough to run supply chains and source components. We actually think in a faster, quicker, more disruptive world. You actually have this source innovation as well as part of your overall end-to-end strategy.

We actually developed the components that are common to making things intelligent such as wireless connectivity, you know, how do you power it? There are common technology elements where all devices as they need to connect into the internet, there are common technology components and we worked very hard to develop those common component technologies, so that we can accelerate time-to-market for our customers especially as they transition into the Intelligence of Things in the age of intelligence.

We actually identify and leverage cross-industry knowledge. You know you can think about consumerism of the automobile or bring in digital health into both the consumer as well as into the medical industry. We actually have so many new product introductions, so much business in each one of the different industries that we've actually build systems and process to really be able to horizontally innovate across vertical industries. And we think it's almost hard for any other company to do that because you actually have to have so much knowledge about where the innovation and what the strategies are of each industry in order to horizontally innovate.
So, we believe, we are almost in a marketplace of one to be able to bring these systems and processes to market and then, of course, we commercialize it. You know we do the new product introductions. We scale it. We do reverse logistics. We take the powerful physical infrastructure part of our system and be able to deliver a solution to the customer. We view this whole thing as an Intelligence of Things Ecosystem. Jeannine Sargent, who will be talking after Tom, will talk more about this in detail.

The third layer is the physical infrastructure layer. This is the place where we have 200,000 people, we have 50 million square feet, we are operating in 30 countries. We have an HR, an IT, a legal, a finance system, that's able to run this in an unbelievably efficient way and achieve 3% SG&A. And if you think about all these boxes that I'm dropping in here, these are all the industries where Flextronics has $1 billion of revenue or more. So it shows you the breadth of operating strategies that we get to see in the marketplace, it shows you the breadth of experiences that we have in bringing new innovation or bringing new products into the marketplace and the ability to look across this entire marketplace to be able to create value for our customers, to help us horizontally innovate and really lead in this new era. This system gives us a tremendous leg-up to be able to go do that.

So when we think about driving competitive advantage, we think about taking our customers and moving them from sketch-to-scale in this new age of intelligence. I mentioned before that many companies today — most companies today need to have hardware, software and content, to really create the optimized experience. Many of those hardware companies, aren't hardware companies, they are software companies. This is a good example, just as the Chromecast, where we actually did the hardware design. But the objective of Google is not necessarily to have a hardware product, the objective of Google is to monetize the content, the software and the data. And the hardware is the vehicle very often in order to get to the real monetization of OEMs, which is in data.

We actually in our sketch-to-scale system enabled the building of that hardware for many of those companies where they want to focus on where the real monetization occurs. This is just one example, but we do this in virtually every industry today. All of our customers in all of our different industries are looking for sketch-to-scale solutions that we can bring to them, so that they can more effectively focus on the monetization of their data and their content and their software. This becomes a huge opportunity for Flextronics because we're positioned in so many different places.

So we've evolved and we've changed a lot over the years. Back in the 1993 to 2001 timeframe, we were really contract manufacturers. When we were contract manufacturers, we thought about supplying labor, kind of low-cost labor. And we spent the time building the systems and the processes that were necessary to move up the value chain.

From the period of 2001 to 2010, there was industry was renamed into electronic manufacturing services, or EMS. By this point, we had built very strong geographic footprints. We had built outstanding quality systems. We had sophisticated use of IT system. We built out more services layer like logistics and reverse logistics, designed for manufacturability, designed for testability.

We built out many of our services level, and we were appropriately named electronic manufacturing services. We're no longer built around just being electronics manufacturing services company. We have actually had so many experiences, so many competencies and so much investment that we've put to really be this sketch-to-scale company and be able to really deliver end-to-end solutions for our customers.

This is differentiating capability built around, built upon the scale that we have as a company and the focus that we've been able to — that we drove our company with in order to bring the services and the capabilities that we need to go compete into the future world. It is our expectation, as we bring more and more value into that
marketplace, we would expect the TAM to expand and we would expect the margin to expand on the back of more and more value-added services.

So, let me switch gears a little bit and talk about 2015. We had outstanding execution really across a broad cross-section of financial indicators. We are proud of the ability to maintain our cost control and achieve SG&A, a reduction of 5%. We are pleased with the operating profit expanding 13%. EPS expanded even more, of course, on the back of cost efficiencies, on operating margin expansion and share reduction.

In fact, we beat our earnings – our EPS forecast every quarter for the year of FY 2015. Our ROIC is a very strong 24%. This is one of the best years we’ve had in many, many years, and Chris will show you some data, some past data and some of the trends there. And it all resulted in a free cash flow of about $554 million. Very strong execution all year along across the broad set of indicators. Very high quality of earnings delivered a very positive result.

We’ve been maintaining a very consistent portfolio of strategy – not just the portfolio of strategy but the portfolio evaluation. We’ve been on this for many, many years where we’ve been trying to move the balance of the portfolio into a more balanced portfolio.

And if you look at 2010 to 2015, the areas that we’re trying to grow the most relative to the total pie are in the IEI, which is what we call our Industrial space, and in our HRS, which is High Reliability Solutions group, mostly built on the back of automotive and medical.

But you can see, over the last five years, those business groups have gone from 19% to 31%. And what’s even more interesting is not just the revenue distribution, but it’s also the profit distribution, and Chris is also going to show you some data on the operating profit diversification. There is lot of the reports focused on revenue as it drives our wealth. So it’s really not revenue it drives but it’s really the operating profit diversification.

So let me talk about each one of the groups just for a moment. Our CTG, our Consumer Group, while Flextronics is working to diversify their business across multiple groups, within CTG they’ve been under a mission for many years to diversify their business across a broader cross section of customers where we’re adding more value. So they themselves can be more predictable.

They are focused heavily on accelerated time to market. They typically deal with short product lifecycles. They work co-innovation and we call co-innovation is when the product is not actually quite right, but the marketplace demand is such speed that we need actually co-innovate with our customers on the fly. And the ability to bring process technologies to bear in this area – new process technologies is very important.

And it’s also our place where we get visibility into the future. This visibility comes from the Consumer Group. This is where the attachment in the end consumers is and it’s where the product lifecycles are, the fastest is where the competition tends to be the greatest. This is actually huge indicator for us to see what are the trends going to be in healthcare, in automotive, in the industrial growth. So it gives us a huge early warning indicator, very important function of our growth.

Our INS group is our datacom, our telecom, our servers and storage. Objective is to build this -- build through a stable revenue number. We actually hope to achieve stable revenue last year, but fell off in the last quarter with some delayed carrier spending. And while stable revenue doesn’t seem like a very aspirational target, it actually is. We believe that stable revenue actually beats the market.
So we expect the backend of the year with carrier spending coming back and also the – with the robustness of the pipeline that we’ve already booked, which should be heading into the backend of the year, we still are positive to be able to achieve stable growth for the year.

This business group also provides the cash for us to invest in many other different segments. This business group has very, very strong cash flow, and as a result, a very key part of our portfolio to be able to fund much of the investments that we do in other business groups. And without doubt it has an unbelievably broad and deep market penetration in the businesses [ph] that it’s in (25:41). And Caroline Dowling will come up in just a – later this afternoon and is going to talk a little bit more about INS.

HRS, I talked, most of this is dominated by automotive and medical. But it’s our high reliability group. We’ve had consistently delivered double-digit growth. Paul Humphries will also talk and show you some data on what the growth rate has been over the last five years. We see no reason for our – this group to not have double-digit growth going forward.

Its role in our system is to continually diversify the business. And as it has longer product lifecycles, it has significant barriers to entry. It will create more predictable earnings as its percent of total continues to increase. And this is the place where we’ll do very focused M&A. This has been our strategy for three to four years now where most of our acquisitions have been in this group as we look to bring capabilities and competencies into this group so that we continue to grow at a very, very – above industry growth rates.

IEI the other place where we believe that we can continuously expand double-digit growth. We grew 18% last year. We continued to see a very strong pipeline that we believe will roll into this year and we’ll be able to achieve this once again. And have set up our system and set the expectation for the team that they delivered this every single year.

This has massive TAM, the amount of things that are typically mechanical devices that are now going into being electrified if you will and the convergence of the technologies and the Intelligence of Things is creating an enormous opportunity for a company like Flextronics to help and enabled us traditionally mechanical companies to move into the Internet, into the Age of Intelligence.

We think and this creating new industries, things like agriculture [ph] comes to bear (27:33), but I’m going to let Doug Britt when he comes up talk about this more in detail. One thing that I will also point out is that as this technology convergence occurs between electrical and mechanical, we’ve actually crossed the 50% barrier where we now have more purchases in mechanical devices than we purchase in electrical devices.

So our cost of materials and components is now shifted. And that shift is going on for about five years now. It’s up to about 52% purchase mechanical parts, that’s just for going on for about five years where it continues to transition about 2% a year. And this is a reflection of all these mechanical parts now being electrified, great opportunity for a company like Flex.

And then there is what I’m sure is everybody’s favorite slide, [ph] Pure Investor (28:26). But we have this [ph] unwary wearing (28:31) commitment to drive our share count down. We have been on this for many, many years. This is on the back of very, very strong free cash flow. Our quality of earnings is exceptional, but we invest in projects we have a strong return on invested capital. All this is driving the availability of cash and with very, very disciplined use of that cash and other investments, it allows us to continue to drive a share count down. This is a key feature of our company and it will continue to be a key feature as we move forward.
So when I think about, where we are as a company? And how we’re positioned in the industry? How is to sum it up? We are extremely well-positioned to lead in the Age of Intelligence. What’s value about that is we believe it’s going to lead to TAM expansion. We believe the value creation from our company to enable companies move into the intelligence age, will enhance our – will increase our value-added and will increase our margin. We’ve seen consistent growth of our margins over the last couple of years. We believe this will continue into the future.

We have extremely broad set of industries. I put up 12 blocks before and I said in each one of those 12 blocks we have a $1 billion or more revenue that we expect this year. In 10 out of 12 of those industries, we believe we have number one market share. This, of course, just unbelievable opportunity to understand the challenges of today’s marketplace in all the different industries and it allow us to unique opportunities to do things like I mentioned, like horizontally innovating and provide unique and differentiating capability to our customers.

We continued to relentlessly drive the balance of our portfolio, both from a revenue standpoint and you’ll see today from a margin standpoint and operating profit dollars standpoint. This is going to continue into the future. As we build this more balanced and diversified portfolio. We’ll have more predictable earnings and we will have better margins. And we view this to be a steady March over the next few years as we continually work to build this portfolio into a more balanced portfolio.

And lastly, we have an unwavering commitment to shareholder return. This has been consistent policy of our company. We believe we have – this is part of the element of the value proposition of our company. We have very, very strong quality of earnings and it allows us the opportunity to give back to our shareholders.

So with that, I’m going to turn the conversation over to Tom Linton, who is our Chief Supply Chain Officer. Thank you.

Thomas K. Linton
Chief Procurement & Supply Chain Officer

Thank you, Mike. And again, thank you all for being here today. We appreciate you taking time out of your busy afternoon to share it with us. The topic I have is the rise of real time information. And I know it sounds like the next summer blockbuster movie and maybe it should be.

You know, supply chain problems are everywhere. If you look at the news on a daily basis, you know, what I mean, we have issues around transparency and supply chains. The chain of custody of how materials, food and other objects move up through the supply chain from remote corners of the planet is all under close scrutiny.

There is a big focus on everything from drones commercial – non-commercial, fast retailing and Omni-channel retailing all these things that actually drive velocity and speed. Supply chain is a hot topic but in all these cases, supply chain problem is at their root and supply chain problems in solving supply chain problems is really a competitive advantage.

In fact, last year, I talked about this in detail when I talked about how we managed complexity at Flextronics to drive competitive advantage. And that complexity is really at the core of what, Mike, talked about and how we do that seamlessly and endlessly on a daily basis.

Sometimes it’s always nice to get recognized and I’m proud to announce that two nights ago, actually in Michigan State University and partnership with ISM awarded Flextronics as their top partner for 2014 for supply chain transformation. And we really are grateful for that recognition.
But what I want to do next is unpack for you a little bit more about this platform. So Mike kind of, went through this in our series of capabilities that are around speed, scope and scale. I want to drill down a little bit in more detail around this thing called speed and real-time information.

So first, it starts with visibility. You can't move what you can't see. So we believe that building capability is around visibility are really critical to making a supply chain faster, live and more intelligent.

But at the same time, we have to be able to navigate around risk because risk is what happens daily in a supply chain whether it comes from disruptions from the outside or the inside, whether it's a supply problem or quality problem things that come up from below, multiple tiers below your supply chain everything that flows into you is coming from somewhere else and so risk monitoring in management is essential.

And third execution, execution of the commercial transactions that occur in any supply chain and involve everything from purchase orders to invoices and transactions in the velocity and the management of that is essential to a fast supply chain, which you will see in a moment.

And third execution, execution of the commercial transactions that occur in any supply chain and involve everything from purchase orders to invoices and transactions in the velocity and the management of that is essential to a fast supply chain, which you will see in a moment.

And then finally, any application really refers to the fact that whatever you do in a supply chain today needs to be built on a mobile platform. It has to be multi-tenant. It has to be multi-enterprise. It has to be cloud-based, so the data can move to people where they work wherever they are in the world.

But this concept of speed really drives the entire effort. And speed really is defined as how fasten object moves. And I want you to think a minute about objects a little differently than you might think about them otherwise. And that object is our data but data is material and material is money. So when we think about speed and we think about the network velocity, we're talking about asset velocity. We're talking about how a financial supply chain actually improves itself as it goes along.

But there are challenges in our way. And there are real-time challenges and opportunities that we need to go address in order to get there. First, today supply chain, as Mike pointed out, are built on old architectures. There is a software stack and just about every company in the supply chain through multiple tiers and these are in towers or silos where information had to be integrated or has to be integrated between those towers in order to achieve any kind of visibility.

Second, the information itself is slower because traditional software systems are built on [ph] drudge-based (36:18) models which actually communicate your information in chunks, so you get that information in a daily basis or a weekly basis, or if you're lucky in hourly basis. And this kind of information speed actually slows down decision-making and when you're slowing down decision-making based on data, you're slowing down material and material is money.

The tools themselves are costly to buy. They are costly to implement, because of the integration required to build these bridges and they are costly to maintain. And then finally, if the information is not real-time, it's not mobile or cloud-based, you don't have the ability to actually respond to it any time or anywhere.

And a supply chain data is expensive. If you look at the overall supply chain and I'm not going to go through this in great detail, but essentially it's from sketch-to-scale. It's from how things are – from an idea all the way through its invention, concept creation, co-innovation, development, inter-production and through end of life.

But for you all, I want to kind of drill down into this area of production. So production is basically a function of time. It's a function of time and how long it takes to actually acquire the material, move that material into a
warehouse or a hub. Actually move that then into production through lean state of the art world-class manufacturing operations, then into finished goods and then out the door.

And today, that is operating at 55 days and equals our $3.5 billion worth of inventory. So if you think about what I say, one day of improvement and the asset velocity and the speed of a supply chain using real-time information is equal to $65 million worth of cash.

So what do we see? When you look at this visibility issue on your vertical access and you look at velocity on the horizontal access, visibility really is all about how the information comes out of the enterprise resource planning tools and into business intelligence reports which managers make decisions on it. And then you've got business-to-business connectivity which really involves how the suppliers and customers are attached to one another, which drives your velocity of information.

What we're missing and what we needed to build and we did this by working with Elementum, is the series of tools which actually kind of drive the digital supply chain.

And this digital supply chain is the same as – we're calling it active tracking. Active tracking is not that different than on your cell phones where you have this little button where you can turn on location services. Location services says where am I? Am I in New York City? Google Maps tells me where I am, what restaurants are around me, what's my weather, etcetera?

But the whole idea here is to get to the point where information in data is like a person with a phone, where information is live, it's fast, and it's intelligent because you're using a tool that similar to that obviously a little more complicated.

Using everything from application programming, interfaces and other web protocols to actually go down and attach to that data down deep in your company and pull it up and drop it down from the cloud into a mobile device. So, information is the money and the fuel which really is driving this whole idea of digital supply chain.

And the benefits are beyond free cash flow. Free cash flow also means that we can turn over the inventory faster and faster inventory means less excess and obsolete inventory because you're closer to the point of demand. If you're closer to the point of demand, you have higher customer satisfaction and you have higher revenue. So, the concept of really supply chain velocity and speed really is rooted and what we're doing here at Flextronics.

Let me touch a little bit more on this concept of speed. Many of you came here through various means today. Some of you flew here, some of you took public transportation, a mass transit and many of you drove.

So, if you equate a supply chain to the road system in Manhattan for a minute and you think for a minute about how you had to get here and the choices you made or the decisions your map app told you to make when you came here, you had to work your way around disruptions.

In some cases, you had to work your way around construction, you had to work – if you were here yesterday, President Obama, you had to work around his day, but you had to work your way around all the obstacles in order to get here and you had different choices to make, you had different roads to take based upon the design of the road system.

So, you can actually move either efficiently or inefficiently because of that. So, a car and you moving here is a lot like data and supply chain. It can either move faster or slower based upon how the
network is actually optimized and information and visibility is actually put into play so that you can make the
decisions better to get here.

And this whole concept of how a supply chain moves and how a supply chain sees is actually really baked into the
premises behind how we think about the rise of real-time information and how speed applies to that.

But we need one more thing. We need one more thing to actually get to where we need to go because we've got
mobile information, multi-tenant, multi-enterprise, working with Elementum. They have now got us into may be
five different stages of our supply chain. We're actually building real-time applications for real-time visibility.

That data acquisition process, I think, we're really starting to figure that out and I think that's competitive
advantage. But we also need to visualize that information. We need to visualize that information because supply
chains are not autonomous yet, you still need people in them in order to make the right decisions, to actually
navigate through this process.

And that decision process can't be really based on old control tower type thinking, which really is more of a gate
process that actually moves things through, but actually has to be a seamless process, a seamless process by which
friction is the enemy of flow and you're actually focusing on how fast things move. So, everything you do has to
focus on speed.

I know when I talk to my team, I talk about everything has to do with speed. Everything has to do with velocity,
because that's how you actually need to run supply chains now in 2015 and beyond. So, data-driven decision
making is key.

Welcome to the situation room. Today in Silicon Valley, Flextronics is building near-completion and it will be
located on our campus. Many of you visited our campus last year in Silicon Valley, and I hopefully you had a good
tour of our Innovation campus. But this room is actually kind of located off our main lobby and will run a supply
chain from demand all the way through supply, so that the screens in front of you, actually if you're a customer or
an investor and you're standing there, you can see the entire spans of Flextronics supply chain before you,
operating from planning, through logistics, through exposures, through manufacturing, inventory, supplier
management, quality, final inventory and logistics, every stage of that process is going to be visible in this room.
And experts making decisions, real-time decisions to accelerate bottlenecks that may occur in that supply chain
will be actually sitting in this particular space and operating out of this space, also connected to users obviously
around the world.

And we have brought to you today; you'll see this at the reception at the end, a small version of the situation room.
So you can actually go up there and see what I'm talking about. These are – this may be only different than what
you've seen before. These are actually touch panel screens. You can actually drop and drag. You can drill down
into inventory. You can go to a geography, a customer or product. You can drill down into a part number detail,
see how it delays – what the delays are; what the issues are. You can pull up actual live video of the factory, you
can pull up live video of the people who are actually at the factory to talk to them about a situation, and you can
move on and connect the dots between the different parts of a supply chain live in this situation room.

So let me try to sum this up. A key behind active tracking is visibility. Visibility is really all about building tools
and capabilities, we're building those with Elementum that provide us mobile, fast, intelligent ways of actually
communicating what's going on in our supply chain. Today we're building them around supplier management,
called [ph] Exposure (44:58). I can monitor shortages. I can go down into detail around manufacturing
production and output. I can plot and manage transportation logistics about where things are anywhere in the
world at any time. And soon, I’ll be able to even drill down into inventory and find out where things are hiding and actually optimize that entire network of capabilities.

If I look in, I think about what Mike was just talking about with those 12 industries, all of them over $1 billion each. I look at what we're building in supply chain capability, and I think if you can build electronics, you can build anything.

And I think you'll see this as the segment Presidents come up after me and talk about what they're doing, you'll see, as Mike pointed out, the diversification in our portfolio and how our ability to build anything in the world of things made by Flextronics really will become more and more pervasive as we optimize the supply chain architecture around our platform. Innovation is said – Innovation is boundary-less, borderless, and I think in Flextronics supply chain is limitless. Thank you very much.

Kevin Kessel  
Vice President - Investor Relations

I am pleased to introduce to you Jeannine Sargent, who is running Innovation at Flextronics.

Jeannine Perchard Sargent  
President - Innovations & New Ventures

Good afternoon. Innovation is important to Flextronics, and it's all about Connecting the Dots. So let's take a look.


Intelligence of Things, it's an evolving ecosystem. So if we think about smart and connected devices, systems and machines, we're looking at enabling new capabilities, productivity and efficiencies that really will change the way we experience life, the way we work and the way we enjoy time.

When we look at the innovation at being at the core of that capability, we think about the ability to actually source and create the smart and connected solutions that allow us to be able to develop new product categories and new capabilities that will allow us to move forward.

We talked about the healthcare market, which I think is every interesting and if we think about what we can do with smart and connected solutions to be able to help us reduce the costs of chronic care. Taking these capabilities and driving these into different markets that allow us to be able to think differently about health and wellness of ourselves and of our family. We’ll be able to connect those solutions in ways that we haven't done before.

The consumer market is the one that’s most close to us and where we see most of these new capabilities developing. Smart and connected solutions have really enabled what is now the wearables market, the ability for us to think about a connected home, living – connected living and ultimately a connected world. Over $1 trillion of value will be created and it will allow us to operate and think differently about the way we move forward.

And we look at energy and massive industrial change that's happening, think about operating cost and expenditures, in the area of smart meters, so over 300 million smart meters have been deployed and by the end of the decade over 1 billion. This is allowing us to change the way we think about how to operate our power and grid systems, and to allow us to be more thoughtful and capable to introduce renewable energy sources.
The smart and connected solutions that are throughout this network are all part of the capabilities that we’ve now been able to develop that allow us to be able to change productivity, improve costs and deliver different performance levels.

In transportation, we think about automotive capabilities, not only about the reduction in collisions, but think about the new types of communication capabilities. We’re familiar right now with maybe infotainment systems and having some sort of vehicle-to-consumer capability, but now we think about vehicle-to-vehicle or vehicle-to-infrastructure and smart cities and the ability for us to think differently as we’re on our way to having a journey to some form of autonomous cars that is stated maybe by having a majority of this by 2035.

So, it’s not too far in the distance that we will see some of the smart and connected capabilities really change the entire way that we live and that we’re able to think about commerce and enterprise as well.

I think one of the most interesting markets for us to think about having a truly transformational change is agriculture. We think about the ability for us to think differently about the food ecosystem in the planet and the supply chain of the food system. So not only can these smart and connected solutions begin to change the yield of crops, but very importantly a significant amount of waste (51:31) preventing us from being able to see our way through to how we’re actually going to see the planet that will have 10 billion people in the not-to-distant-future can all be impacted by the age of intelligence and smart and connected solutions.

We think about innovation and the ability for us not only to create the innovation, but we need to make it sustainable. And I think one of the key differentiators is at FLEX and as we look at changing our business model from Build to Print to Sketch the Scale, it’s all about how we think about sustainable innovation, the ability to not only enable our customers to innovate, but to do so rapidly and reliably.

The ability for us to look at adjacent markets and capabilities, connect those capabilities and enable them to be done with new technologies in just as robust and reliable manner as those that are tried and true. This is what is needed in order for us to not only take this moment in time, but actually extend the age of intelligence and have sustainable innovation, which is the true differentiator.

One of the unique capabilities at FLEX is that visibility that we have, the visibility across all of these markets and applications and across the deep level of technology. This allows us see what is needed and how to move and mobilize and develop these solutions in robust manners unlike any other. But it's all about the sustainability in moving not only rapidly, but reliably.

I’m going to quickly walk you through an overview of the some of the key elements of Sketch to Scale ecosystem of the age of intelligence, and how we think about putting together teams of people and competencies and capabilities, not only of our employees, but also our customers in the entire ecosystem that we work with in order to enable innovation.

The cultivation, as Mike mentioned, is really essential. And we have successfully deployed a system and a network now globally that allows us to be able to take advantage of this innovation. We are located in the key centers of innovation in the world. Many of you visited our innovation center in Silicon Valley. We have an unprecedented 1 million square feet of space where we can take you from a napkin and a concept and an idea that you might have had over a cup of coffee, literally to new product introduction, high volume ramp and certified and regulated markets and then transform that globally over a weekend. So we have several case studies of doing this in Silicon Valley alone.
We’ve also positioned ourselves in Israel. We’re expanding in China and we’re also spending quite a bit of time here on the East Coast, so both presence in the innovation centers in New York, in Boston and also as we expand to places like London and through the continent.

These are centers where universities, consortia and groups of people are coming together and taking advantage of the collective innovation platform that we put together that allows you to source and then monetize new technologies in a reliable manner.

At the heart of the innovation ecosystem is the technology components. These are core and key technology capabilities where we make investments in resources and new technologies. We nurture and cultivate these technologies and these companies or universities who have concepts and we help bring them to life.

We brought together experts that are on our team and in partners’ that allow us to drive deeper than others have done and anticipate what is going to be needed in the future because again, we are sitting back and looking at this across a very broad ecosystem, that allows us to be able to take advantage and really leverage these core technologies into multiple markets.

The markets and the applications are an interesting way to think about how you can leverage innovation and create differentiated value? It’s through this cross and horizontal innovation, as Mike described, that allows us to really provide differentiated results for our customers in specific verticals. The ability for us to learn lessons in the consumer market for example and help them rapidly and reliably transition into automotive or into the medical space or into new modes of industrial are key to being able to service the needs of the intelligence age and to meet those requirements, again, with the pace and with the reliability that’s needed.

The go-to-market is sometimes underestimated. It’s the foundation for which many decades now we’ve been doing this. But again, it’s not non-trivial to be able to do so with these new technologies at the rapid pace and in a reliable manner. So together this whole ecosystem is what provides the capabilities of the age of intelligence.

I want to share with you an example and I think intelligent digital health is a good one; it’s one we can all relate to. And if we look at this market, it’s significant. The growth has been substantial. It’s estimated that it will be almost a $100 billion by 2025. In particular, we take a look at the diabetes industry; it’s a very significant industry, about $300 billion now and forecasted to double to $600 billion.

Flextronics has been involved for over two decades and supporting the development, design and introduction of diabetes monitoring systems. But in the age of intelligence, we have the opportunity to create a smart, intelligent diabetes management system that allows you to not only have real time information that you might be able to garner on a smart miniaturized patch to be able to compute that information and share it on a smartphone, and then connect to your medical providers or insurance providers or other systems to have real time information and exchange.

It’s the beginning of the changing the way we are going to operate and allowing us to have a seamless integrated capability to change the way we think about digital health and wellness.

The investments that FLEX has been making over the last several years are significant. We continue to invest in our engineering capabilities to drive these centers of excellence and also to increase the capabilities in our product introduction centers. In our Silicon Valley product introduction center, we launch almost 2,000 new products a year. The amount of complexity across all of these industries is staggering. And we think about the ability to again, pull this new capability of new innovation through this market and to be able to deliver these results, what we’re
starting to see now is significant traction and attaching the design wins, we had a 1,000 design wins in FY 2015 to over $3 billion of revenue in FY 2015 and new design wins related products.

We are now – that revenue will have a tail for several years and we are seeing that amount of innovation grow significantly in the attach rate of design and solutions for our customers as they try to these capabilities and move them from one market to another and look at how to take advantage of new capabilities.

The business model is changing and evolving for us. So if you think about it it's really about moving from a Build to Print to a Sketch to Scale.

Innovation is at the core of being able to execute on the Sketch to Scale proposition and in that proposition, we take on much more responsibility, we are closer and tighter linked to our customers, longer lived, stickier our relationships that add more value to them and allow them to move more quickly in their existing markets and also into adjacent markets where they are having a smart and connected solution as they move into the age of intelligence.

This allows us to be able to create growth in the number of engagements that we see in design, and in fact the significant growth from 2013 to 2015 and we're anticipating a doubling to over 30% of the engagements that we have revenue based, will have design and productization associated with that. So there is a substantial opportunity for us in this new business model to create value for our customers and that value is being directly translated into higher and more sustainable profit for FLEX.

Thank you.

Kevin Kessel
Vice President-Investor Relations

Okay, everybody. We're going to go ahead and take a short 15-minute break. You'll find food outside in the hallway. And if you need any charging, there is a couple of charging stations set up in the back of the room where you can set up laptops or smartphones or whatever else you might have with you.

[Break]

Kevin Kessel
Vice President-Investor Relations

All right. We're going to kick-off part two, which is the FLEX portfolio. We're going to have presentations from all four of our Business Group Presidents, with a lot of interesting examples of how we're engaging with customers in a different way and some really interesting videos as well.

I also wanted to mention, I failed to mention this earlier, but the Wi-Fi code in this room if you're trying to look for that is FLEX2015.

And with that, I'm going to bring up Mike Dennison, who is our President of our Consumer Technology Group.

Mike Dennison
President-Consumer Technologies Group

Thanks. Thanks. Welcome to the middle of our agenda, like an Oreo cookie, this is the good stuff. So we're going to try to show you a lot of stuff on the businesses today. I've been up three years in front of you folks, I am glad to
be here again and talking about some of the great successes we had in FY 2015, as well as focusing on some of the future progress we plan to make as we go forward.

Let me start by going back to where we were and what we said. In FY 2013, we talked about building a better business, a better mix of customers. We wanted higher margins, less variability and we wanted to drive a more sustainable business.

It was important for us to get to that balanced portfolio that allowed us to reach a diversified customer's base and get to a profit margin that was acceptable. I’m proud to say today that we’ve reached that target profit margin for CTG in FY 2015.

In addition, it was important for us to drive the volatility, the variability of that profit margin down. We wanted to be more predictable quarter-to-quarter, so we can manage our business more successfully. We’ve done that too.

From there, we wanted to go drive a more diversified customer base. We wanted to go attack new vectors. Vectors like wearables, connected living and others. And in wearables, specifically, we were very successful. Today, we are 85% of the market in sports wearables. We literally lead this show.

Now last year we talked about reorganizing the team for various reasons. We needed to differentiate so we could really get at the new disruptive companies, to really attract those young companies who had great technologies, great ideas, great sketches to come into FLEX and be able to engage FLEX in a way that we can help me, enable them and get their products to scale.

So we created this new structure which is core, focused on our big multinational companies, strategic – companies that really lead in market directly where we can add value in helping them continue to be that market leader.

And then ICE, which stands for Innovative, Connected and Emerging Technologies. ICE is really about those young disrupted companies. What I’d like to do is give you three examples of successes in this last year in these different spaces.

In our first example, we engage Sony, now Sony has been a long term partner of Flextronics, doing small engagements in different parts of the world, but this year we changed that model and engaged with Sony on PlayStation 3 and PlayStation 4.

Now we didn’t do that in low-cost China. This was not a low-cost China solution. This was about adding services, using things like our tax and trade capabilities to really bring about a platform solution.

When Mike talked about platform, this is what he means. And engaging in this new relationship with Sony will drive a multi-geography business over time that will become very substantial for Flextronics. We’re very proud of this relationships starting this year.

In strategic, we talk about wearables, and we talk about we’re the leaders in wearables. Fitbit, Fitbit has been with us for three years. When we first engaged Fitbit, I asked them to come join Flextronics, let us help them scale, let us help them take their road map of products down the road in the future to where they wanted to be and let us go scale with you.

This business has more than doubled every year that we've been with them. And it's been a partnership that has had massive success. We're very proud of what we can do in the strategic relationship.
In ICE, as you remember, we announced ICE last year. This was a brand new organization, basically at Analyst Day last year. So we've spent a lot of time building the team, the processes, the way of doing things, enabling customers, getting out in front of customers, so they could understand how we work and it has been a stampede of success, partners coming to FLEX asking for our support. It has been an overwhelming success relative to those engagements.

One of those engagements was Recon. And Recon makes wearable devices for your head, usually in sports and other things. So, if you don't know about Recon, it's actually in your magazine, there's a whole spread on it. Talks about what they do and we do with them. So you can learn more about them. But this is a company that couldn't have engaged FLEX two or three years ago.

We didn't have the dexterity to handle a customer like this and give them what they needed to be successful. By creating this organization, we could take Recon and this [ph] jug product (66:12) from basically to ground up and enable them to scale in our innovation labs in San Jose.

One other customer I want to talk about briefly is Lenovo. Lenovo has a big relationship with Flextronics. In fact, it's our largest relationship in Flextronics. And inside Lenovo is our Motorola business.

Now one thing you should understand about Lenovo is this is a very diversified relationship across products that include phones, laptops, desktops et cetera in CTG and service and storage within Caroline's business in INS, so this spans more than just consumer.

Now in addition, this relationship's a lot deeper than just doing products, we provide services to Lenovo all over the world. This is not about China. We do work for them in China, but we also do work for them in Europe and Latin America.

And the value we add in those different locations is extremely important; in fact we won numerous awards over the years with our operations with Lenovo and a couple of different years we've talked about that here. We continue to win those awards for service, for quality, for logistics.

Recently, we are included in their Global Advisory Board as one of the only Western Companies to take part in that board, which drive their supply-chain strategy going forward. [indiscernible] (67:43) just shows you the depth of that relationship and the commitment to us over the long period of time.

Mike talked about powerful ecosystems. He talked about software companies that need to be in hardware and how important it was for us to be engaged in these areas. So you know we have a strong relationship with Microsoft. It's going back 15 years to 16 years. You know we have a strong relationship with Google. We are building a strong relationship with Baidu and Alibaba, relatively new companies, if you will, in this big ecosystem play. And Amazon is very interesting because their software company's really about how do you get a consumer to buy? How do you enable a consumer to buy more easily? And we are doing some very interesting things with them.

We are going to create a world where you can have your appliances, where you can have your coffee maker, your wash machine or your light bulbs, reorder themselves when needed, reorder detergent, reorder coffee, reorder new light pump. That technology is created by Flextronics. And we'll help enable these connected homes to do the things that you're going to want them to do in the coming years. This is a very important relationship to us.

So before we talk about our balanced portfolio and the answer is yes. We are extremely committed to driving the balanced portfolio forward. We think this model works very well. Core, strategic and ICE. We are going to
continue to focus on this portfolio and then drive vectors, what we call vectors, through it. Whether it'd be wearables or connected home or other consumer products.

So, we will make sure that we're on the cutting edge of those products and technology and disrupted companies and ICE, as well as driving those products as they mature in the core businesses with our partners there. One other thing I want to see about this since last year is how we've done. So I told you what we set out to go do relative to margins associated with these businesses this time last year.

And I am telling you today, these are the margins we did in these businesses this year. Not only did we do that, we found great successes and new wins bringing customers into this spaces throughout that year. And as you can see, of course, in ICE we drove a lot of new business, a lot of new partnerships and this just only gets faster and faster.

And strategically, we added key partnerships that we needed to be successful and in core I mentioned one of them was Sony, there was a couple more, but again this creates a very balanced portfolio and this is why those numbers makes sense, starts to stake up has a great success for us.

Jeannine and Mike both talked about ability for consumer technology to really run on the front of innovation, really to drive the new technology, the cycles of learning are very fast in consumer. We're able to get to thing s very quick.

Our ability to get to those things more quickly allows us to take that technology and then drive it to industrial, put it in automotive or medical, enabling those things that are used by the other segments, so that they can also take advantage of those things faster than the rest of the market, and get those out in front of customers that they have whether it'd be Ford or somebody else that needs that technology that comes from consumer, now in their automotive play.

This is extremely important for us to be able to take those technologies and that learning and move it over very quickly. We do that through things like the innovation labs that Jeannine talked about. Our innovation labs in San Jose are literally doing this every day. This is not blue-sky stuff; this is actual real stuff that we do in that lab, in the innovation center, in San Jose.

Going forward, we are committed to finding the next big thing. If you look at the last ones, connected home and our presence and leadership in that space, and wearables and our leadership in that space; we're really, really focused and aggressive about finding the new places to play where we can drive incremental revenue and a higher margin structure, because we're adding more value and we just do that day in and day out.

So, going forward, we're finding new vectors. And I look forward to sharing some of that with you as we develop those and as we can share them about the places we're going to be in over the next year.

But I firmly believe, we can continue to grow consumer in a way that matches our balanced portfolio strategy, increases our margin structure, diversifies our customer base and finds new places to play.

So, in summary, we are still committed to a better mix of business that is what we do in consumer and that's what we'll continue to do. We're actively going to engage new markets. Every year when I stand here, I hope to be able to tell you about new markets that we've entered and succeeded and capturing, since last when I spoke to you. That would be success. Leveraging our innovation to drive those new technologies forward, not just for the benefit of CTG, but for the rest of the company is also a critical, important factor for us to drive.
And then finally, because it's consumer, we need to run a lean operation. We are committed to continuing to stay lean and focused with a highly talented group of individuals that will ensure we're the best consumer business in the business. Thank you.

Next, I'd like to invite Caroline Dowling, who is in charge of INS business.

Caroline Dowling  
President-Integrated Network Solutions

Thanks. Good afternoon. Delighted to be here and thanks for attending today. My name is Caroline Dowling, and I run the Infrastructure or Integrated Network Solutions Business Group.

So, we are a business – number one world-wide. We've maintained our market share year-over-year, about $9.2 billion. We're comprised of three different business units. It's the traditional service storage space, which we include our converged piece into, it's communications and it's networking.

During the past couple of years and in particular during last year, we spent a lot of our time innovating and actually investing in our design and engineering capability. And to that end, when I look at service storage, and what I look at in converged, we've invested in flash and hybrid storage. We've invested in appliance and security. And we are by far number one in that space today and that market grew for us this past year.

In communications, we're the strongest EMS player and solutions provider worldwide ([indiscernible] top four. But last quarter, as you saw, the North American carriers had a slowdown in the spend and roll out for them in the first quarter.

However, they've all indicated, they will pick that up in the second half of this year. So we anticipate to that wireless space will be very strong for us in the second half. In networking, we do business with all of the top people right across from high-end routing, software-defined networking including in optical. And we've invested quite heavily in optical and doing very well and expanding our growth there. We had 10 new logos out this year and if you got to remember, I shared with you last year, the vast number of customers we have in this space.

[ph] AG active ([75:43] customers, we do business with every successful firm inside in these different segments today, and we have 10 new logos like the Tintri, Google, Facebook, among others. So really good work there, with high operating cash, Mike referred to with earlier on, so our cash flow is superb, it's a mature business. But equally we have whole evolving parts of that business in the converged and optical side. But we're much more an innovator, much more a products delivery solutions company. And we continue to operate on average into 3% to 4% operating profit range, so very solid business.

Maintaining market share, we own 33% of the outsourced market in communications we're number one. In network, we are number one with 21%. In the converged space, we are number one. We have captured all of the security, the appliance, the flash; the hybrid storage guys that have been evolving in this space, as well as having the more mature companies in our portfolio that serves service storage.

There is no doubt it's going through a change. We all talked about the virtualization, we talked about software. We talked about what's happening in the definition of that network and how it's coming together and how it's evolving.

We know that when companies like FireEye talked to their market or indeed Tintri, they talk about themselves as software companies. And that's absolutely true, they are software companies. But they have to have a conduit to
deliver the product solution. And that comes from Flextronics. And what you're seeing the difference in INS over the past number of years and what we were doing in our future is we've become that product solution to our innovation labs.

We're able to leverage our global system; we now have a much more, stronger design and engineering presence in these customers. Open source and open compute, we're members of all of those groups of course. But equally, we have a very strong and evolving relationship with Atrenta, where we get access to their product roadmap and their portfolio well in advance of the general markets. But one of only 20 companies that are approved for that today, it's highly valuable to us in INS because it allows us to get engaged very early on and to what's coming down that road path next.

Sorry, pardon me. So let me give out what Mike talked about earlier on, about the 50 billion devices connected. I think he referred to it as a $7 trillion market. Let us think about the capacity that's required to be able to deliver 50 billion connected devices.

Wi-Fi, a 100X, you think about 250 million cards connectors, where does all that data go. How does it get stored, how does it get network and what is the backbone infrastructure that's actually going to deliver it, and that's what our group do. We actually co-develop and design and deliver that product across the globe. So it's a strong place for us to be. You still need that capacity. You still need to be able to drive that infrastructure around the world.

Video is increasing I think 7X. When we talk about the likes of Netflix and what happens, they take up 20% of the actual capacity of the U.S. today. When you go to Europe, it's more like 70%. You think about LTE rollouts, maybe 80% is rolled out in the U.S., but it's only 25% in Europe. There's an awfully lot of work yet to be done. Last year I talked to you about our technology positioning. We have the strongest in the world and the broadest portfolio, deep engineering experience, deep operational experience here.

Think about telecom. The top four guys in telecom own that industry. Huawei, Ericsson, Alcatel-Lucent and Nokia. I think we're the only company in the world that actually design, deliver and manage the services of those products for all four across the globe. We own over one-third of that market, we're extraordinary strong, we've participated in all of the LTE rollouts. We have our global footprint.

We're working on C-Ran today. Well, look at the networking and what we're doing in high-end routing and switching, but equally the software-defined level, and how we drive that solution again across the globe. Last year we talked to you about the Insieme program which is a Cisco SDN or software-defined networking solution. Since then we've added Nuaj we've added Corsa (80:37) and many others into our SDN portfolio.

And look at how we're going next and we have 5G already under development in our lab and think about what 5G does. I mean we're still trying to deploy 4G worldwide and we're already working on the 5G solution, delivering 800 megabytes in 2 seconds real-time to your devices anywhere in the world is pretty awesome to see it at work.

Look at optical, we deployed optical at a 100-gig in volume. And you know you need that bandwidth, you need speed. Photonics has been around for a long time. But it's finally come into its own in the past couple of years and we're seeing significant growth there. And we're invested in new product development for 400g in our labs and we've launched that with Sienna, with Alcatel and with others.

And of course the last piece for me is on the converged side. Developing strategic partnerships, not just with Intel, but with many others, to be able to deliver rack and stack and single node solutions, I become the OEM hardware solution for these software firms. They may have two hardware engineers on staff; they depend on Flextronics to
do everything else, what Jeannine had referred to from Sketch to Scale. That's what the INS team are doing today, and this is a billion-dollar business for us and growing.

Last year I've indicated to you that that investment is starting to pay off and we anticipated that it would hit $1 billion for us this year. We actually closed out the year at $957 million. Team did an awesome job. We have fabulous names like Nimble Storage, growing real well in flash. We have names like FireEye and Palo Alto Networks, Teradata and Data Analytics. We've just added Tintri, super company, software company. We've added Google, we've added Facebook and multiple others.

This is a very strong place for us. The difference here is all about innovation and Sketch to Scale. The difference in this business is that it's not prescriptive. It's not a traditional OEM giving the instruction on how I should test it, how I should build it and how I should deliver it. This is somebody coming to me with a spec, I needed to be able to perform to this level and I want you to design, develop, give me a reference platform and deliver that hardware product. But if it is coupled with my software, I now have a solution to take to market.

So we've had to really look at how we engineer and design and deliver that to market. It's a very different model and we are in our third year and we are doing really well. I can't think of a single security company that we are not engaged with today, nor in the Hybrid Flash that are actually outsourcing. So it's doing awesome.

Then look at our optical, which – optical is growing at about 6% a year to $16 billion business. Put in perspective, the 50 billion connected activities that are going on and the amount of speed and the reduction in latency and that last mile pipe we need. This is where optical comes in and we see a lot more growth in this.

Sienna and [indiscernible] (83:47) announced that we are getting together earlier this week. They are both big clients of ours. They have been in our portfolio for a long time. We are now seeing that optical engagement getting in at the virtualization layer.

We are sitting here in a very comfortable position of continuing to develop our design our Sketch to Scale, our manufacturing and our deployment of those solutions so we can engage in this new way of working. So that we can catch all of the software activity that's going out of the top layer and be able to deliver hardware solutions to that. And we're going to continue to develop and invest in our optical business as we go forward.

I talked a lot about the platform. This is one of our older engagements and the reason I wanted to share it with you is that it continues to evolve every year. We continue to add more and more services. We expanded it from one single business unit engagement and over the past three years we have expanded it to six business units within that large company.

In addition to that, [indiscernible] (84:51) we added actually seven nodes across the globe where they wanted to expand their relationships in South America, we set up a node for them. We actually consulted them about their financials or tax they are trading. We created about a 15% score of market advantage for them because of that entire use of entities and being able to bring that solution to a local South American market.

We expanded into Asia for them and they've been able to accelerate their performance in that space and we expanded into both actually Western and Eastern Europe. We also went out to the scope. We included our reversed logistics, our forward logistics in that final last mile where we do merge and transit for them for ODM products they need to deploy to deliver full solution for their customers.

We included supply chain activities, where we do component sourcing for them on their behalf and act on their behalf. And then we also have the whole IOT initiative where we have invested in machine-to-machine and factory
of the future and some other things where we are monitoring how the product performs and how it’s produced in the factory, but equally when it goes to the field. What’s actually happening here? To create real stickiness with your large core customers, you actually bring them new ways of working and new ways of thinking by expanding these services.

So for INS for me, the key takeaways here, it’s a $9.2 billion business. We are number one worldwide. We have maintained our market share. We have taken leading position in optical, leading position in the converged and security appliance and hybrid. We continue to invest in the core areas where we are moving away from being a me-to-hand—me-the-prescription, much more into an innovative here’s a solution on the hardware side. Of the entire revenue we have right now, 10% of it has been designed in as our hardware or our reference platform solution. And I anticipate that that will actually continue to grow and accelerate over the coming years, defending our position in this space. We have the strongest technology and strongest customer portfolio in the world. I think my challenge was trying to find somebody we are not engaged with today and to see where else we can grow. But what we are doing is ensuring that we maintain and protect our current position.

We invest in the core areas in optical and LTE and in converged. So we look at – our bookings for the year have been superb, strongest books we’ve ever had both in the new emerging and disrupting companies and equally in the core, but also a very strong pipeline going out for the future. We have a stable revenue outlook, and as Mike mentioned earlier, unfortunately for us last year, because of the first quarter for the North American carriers, significant downturn, but that’s coming back to the second half, they are all indicating holding to budgets, which means that we will drive to hold our revenue stable outlook.

Superb cash generation for the business and very strong operating margins. Overall business is in a good position. We continue to develop the relationships with our key and core clients. We continue to capture all of the emerging companies. We’ve completely changed our way to working where we have our traditional model, but we equally have our new go-to-market model bringing whole host of products and reference platforms to the market and winning. We have evolved with core relationships, including Intel and others that help us to actually get speed into that market and then we leverage our entire platform to deliver those solutions worldwide.

We expanded with FireEye this year. We took them to Europe. We took them to Asia. We expanded with Palo Alto Networks in the same way. These companies – the absolute use of our platform and the ability to exploit that and go-to-market faster is a huge advantage and we will continue to invest in this. Thank you very much today.

Appreciate it.

I’m going to introduce you to Doug Britt. Doug runs our Industrial and Emerging Industries.

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Douglas Britt  
President-Industrial & Emerging Industries

Thank you, Caroline. Good afternoon, everyone. It’s great to be here in New York to share our industrial business. We are really excited about the things that are happening in our industrial group. The industrial marketplace is very, very broad and two and half years ago we set out on an investment strategy to expand our design and engineering capabilities. We started to make investments in our physical capacity to ramp highly electromechanical supply chains. And we also aggressively expanded our sales coverage model. We started out in Europe and we invested in the Americas. And today, we are making investments in China, investments in India.

We also implemented a field applications engineering organization that could interface with the customers’ design team, so we can proliferate our capabilities around engineering, design and innovation into the customers to help generate new opportunities. Those efforts have paid off and we experienced significant growth last year. We grew
the business by 18% over fiscal year 2014 and we generated $4.4 billion in revenue. We also expanded our base customer and the penetration of our base customers. We grew accounts over $100 million, to 13 accounts up from 17 accounts in the prior year. And we grew 23 accounts in doubledigits and 12 accounts in triple digits. And then our proactiveness, we’ve migrated the organization to a proactive culture, we’re bringing solutions to customers and we are looking at their supply chains and how we can transform their supply chain, how we can bring innovation into their new products and we won $1.6 billion of new business that will help us continue to grow.

We added 44 new customers to industrial. These are customers that we never did business with before. As I mentioned, the industrial market’s very vast, and we’ve identified over a 1,000 customers that could be significant customers to us at Flextronics. And then we ramped 185 programs. Our global operations organization, our team, our engineering team, our program management teams, we ramped a lot of business last year.

It was significant and it took a lot of energy and lot of efforts. I’m very proud of the team of being able to pull this off. And we believe all this work is going to continue to enable us to grow our share of revenue in the company. Last year in fiscal year 2014 we were 14%, this year we are at 17%, and our wins and the way that we are approaching the market and vast nature of industrial, we believe that we’ll continue to grow double digit this year and the foreseeable future.

Many of you may have heard of Abraham Maslow, he was the one that came up with the pyramid of basic human needs. And how he invented this, come up with this theory in 2015, he may have included connectivity in his requirements. I know in my family when the Internet goes off in my house, it takes about two and half minutes for family members to track me down and complain about how we are going to get it back up, because they are doing their FaceTime or they are doing their Twitter or they are doing hopefully their homework.

And what’s happening in the industrial market is the industrial market is now digitizing. It started in consumer; it went to business, now it’s migrating into industrial. We refer to it as Industrial 2.0 in our group. Industrial 1.0 it was a time that these companies ruled over the past 50 years through acquisitions. They invested in heavy electromechanical domain expertise, and they managed and controlled fragmented supply chains.

The Industrial 2.0 generation company is looking at generating new opportunities to globalizing their supply chains. Fragmented supply chains are uncompetitive, they are costly. They need to generate more cash and they are looking for partners to globalize their supply chain. They’re also looking at inventions. And how can they get their products connected to the world, how can they bring intelligent products to the market that generate net new revenue streams for their company.

And they open to working with companies. They are open to hiring new people and they are open to working with new companies that can bring innovation to their product portfolios. And as I mentioned, 2.5 years ago, we started to expand our field applications, engineering organization, and really what this team is they are technologists. They’re customer facing technologists, acclamatory system backgrounds, electromechanical backgrounds and they are facing the company that we are doing business with.

They also understand the cost segment capabilities and technology investments we are making. As an example, in medical, lot of sensing technology. Automotive, actuators; in our INS group, connectivity. In Mike’s group, they created a smart hub device. They are taking these technologies and they are developing proactive solutions to go to the customers, to bring the customers to the next age of technology disrupted in their marketplace and we are winning a lot of business with this model.

An example of one of the results that this team has generated is our relationship with Smart Technologies. Smart Technologies is a publicly-held company that has historically driven revenues through interactive displays in the
education market. As their top-line started to flatten, they wanted to expand TAM. And they started talking to us about digitizing whiteboards for the enterprise market. Our technologists and their technologists met and they co-designed, we did the digital design. We brought in digital technology, [indiscernible] (95:47) communications Bluetooth, WiFi, processor control, camera technology. They have software and they have the industrial design and then we did the mechanical design.

This is an example of a Sketch to Scale opportunity that we are now building in [indiscernible] (96:07) Mexico and its actually staring to hit mass production as we speak. I would like to show you a short video and introduce the collaboration between Flextronics and Smart Technologies.

[Video Presentation] (96:20 – 97:22)

Another area that we've heavily penetrated is we're referring to it as a home industrial market and lifestyle marketplace. In this business, we've grown it to just shy of a $1 billion. We grew it 15% year-over-year. And as you look at the illustration of this home, all the products in this home, we actually bringing connected devices and we're bringing these products onto the internet and it's enabling these customers to have new revenues streams.

One example is a window company. We approached a large manufacture of windows two years ago with the idea of them monetizing their window in a new business model to do security and surveillance. We brought sensing technology. We brought a smart hub capability and we brought how to leverage to cloud and do mobile applications.

So someone can actually see what's happening in their home through the windows. This product has been introduced in the market and we're building the product now in one of our factories. It was designed the sensing technology in the hub designed by Flextronics. And as you look across the illustration here, we are doing the same with HVAC systems.

So you can turn your air conditioner, your heater on or off with a mobile application, water heater, sensing technology for leaks and door lock sensing technology, mobile access. So all these wins are all generated with new innovation approaches and they're heavy mechanical supply chains that have big barriers of entry not just from an innovation standpoint but from a manufacturing standpoint.

So our $1.6 billion of wins last year came from three primary areas. One is innovation, bringing new ideas to customers to help innovate their products and its design revenue, which is $380 million of manufacturing revenue that will be moving forward based on their design wins, we're also a consolidator. We're consolidating these fragmented supply chains and we are acting as a consolidator we also representing transformable solutions to the customers to help them with balance sheet and P&L benefit.

One example of a consolidation that we did, last year, is our win with Nautilus. And this is an example of consolidation and manufacturing and as well as innovation. If you look at the hospital bed in this illustration, we build hospital beds at one of our factories and we've localized the supply chain and if you look at the elliptical machine that Nautilus is marketing. This is their Max Trainers their newest generation elliptical that we will be building, very similar manufacturing techniques. There's gears, there is different welding and tubes that require and that supply chain has been localized, so when the customer came and visit our factory they check the box and they were quite impressed that we had evolved supply chain into the mechanical nature that could build a complicated mechanical movement product like an elliptical.

We also presented to the customer an innovation capability and what we did is, we have a lot of voice recognition partnerships with different software companies and chip companies. And we thought it'd be good on their
treadmill products to have the ability to have voice control to speed up or speed down, versus how to reach to turn it up or down.

We also brought in connectivity, so possibly you could have a user experience as customized by putting your device with your music playing back to you and we brought technology and how to do that. So, this win illustrates the synergy of our manufacturing capability importing that into a new industry for new revenue and it’s also illustrating the fact that we’re winning on innovation, because Nautilus is an innovative company. If you watch them in the market, they’re doing very, very well, they’re back and their CEO and their engineering team like our thinking. They like the fact that we can bring new ideas to help them grow revenues.

Another partnership that we launched last year is a significant win Bissell. Bissell is a privately held company owned by Mark Bissell. They are in the deep floor cleaning and vacuum cleaner floor care product business. This is a sketch to scale and a supply chain consolidation win. We will be designing all the next generation Bissell deep cleaning products through our engineering organization and Bissell is also interested in how we can bring a global footprint to their business if they’re accelerating new markets and they need to have their supply chain more diversified and currently being built in China in one of our factories.

And I like to introduce Mark Bissell to you.

[Video Presentation] (102:18 – 103:44)

We’re also very excited about a relationship that we’ve had with Whirlpool Corporation. I introduced that relationship last year at the Analyst Day. That relationship has extended now their KitchenAid brand. And we partnered between KitchenAid and Nespresso to build a new appliance to help Nespresso sell coffee in the North America market.

I’m not sure if many of you’ve had Nespresso coffee, but it’s excellent coffee. And we also partnered with KitchenAid to do the design of the product. We do design for Nespresso and now we’re doing design on a coffee appliance for KitchenAid.

In this example – it’s a sketch to scale example, we did the mechanical design of this product. We integrated the coffee brewer system and we created a unique human machine interface. If you look at the dial of appliance, it’s an infrared based dial and it has six cup sizes. So, if you turn it to the left, it will send us sensing — infrared sensing signal to the coffee brewer to make a Nespresso size cup. And if it goes to the right, you can get a larger cup.

And I’d like to introduce the KitchenAid product in collaborative design between us and the KitchenAid brand of Whirlpool.

[Video Presentation] (105:03 – 106:04)

Our energy market is a fast growing market segment for us and we have three areas that we’ve been investing in. Energy management which is smart metering for gas and electrical meters, we provide design and manufacturing services for the top five metering companies in the world. We shipped currently one out of every four meters in North America and we’ve just significant expanded our relationship with these customers in Asia and in Europe, which will continue to show steady growth in this market.

Our renewable energy business is also accelerating growth last year we grew this business by 50%. We are the largest manufacturer of solar silicon modules outside China, we have 1.7 gigawatt of installed capacity. We’re experiencing a good growth with this business. We will continue to see growth with this business moving forward.
this fiscal year. And we're very excited about our micro inverter business, we're the largest micro inverter manufacturing company in the world, we have over 10 million unit shipped and we're partnered with the largest companies that produce and design micro inverters.

In energy storage, this is a market that's evolving we're real excited about the growth potential and energy storage, of course, this is stationary storage and the technology of batteries and the cost of batteries has come down that's enabling this market now to expand. Really two major drivers. First the cost of utilities to distribute energy is significant, so being able to install a storage farm to be able to house energy when the peak demands are low and be able to redistribute when the demands come up is significant value proposition, economic proposition for utilities.

And there is also companies out there that will leverage arbitrage in this business to buy energy low and to sell it high. We're putting investment in this arena, we think it's going to be a significant growth engine for us. We estimate in 2022 this will be a $10 billion market and we'll be addressing it.

So, overall the industrial marketplace is very vast, the TAM is massive. And our strategy is to penetrate the leading companies in the markets that we serve with strong domain expertise and technology solutions and manufacturing solutions. Think about it this way, if we can get 100 accounts that are large conglomerates that are dealing with us each and every year and we can win $10 million out of those 100 accounts that's $1 billion growth rate just with the 100 accounts. We did 20, it goes up significantly.

So, what we've done as we've laid the framework to get relationships in these customers, these relationships will accelerate through good execution, through our innovation services and we believe it will position us to grow in double-digits moving forward and that's where we're excited about the opportunities that exist in the industrial business.

Our operating profit were confident; moving forward, we'll operate between 4% and 6%, last year we operated below our target, because we ramped up significant factor investments in Asia, in Mexico and Eastern Europe. That revenue comes after we make our investments we hire engineers, we hire program managers then the revenue comes.

And many of our accounts at a sustaining levels operate at these levels are higher and we expect the new revenue coming in will be able to maintain the margin structure of this business. And then as we continue to grow, our goal is become a larger percentage of the overall market share within Flextronics and be a stronger contributing factor in the financials. We generate a lot of free cash flow and we're very excited about continuing to grow the industrial business.

So with that said, I would like to introduce my colleague Paul Humphries, who has got a lot of exciting things happening in the High Reliability Solutions organization, so to the stage Mr. Humphries.

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**Paul J. Humphries**

*President-High Reliability Solutions*

Thank you, Doug. Good afternoon, ladies and gentlemen it's a pleasure to be here. Mike talks a lot about speed except when I'm talking, he obviously slow down. So, I'm going to start by speaking slowly. So, I'm going to talk to you today about HRS, about the successes we've had, the more importantly, where we see the business going forward. We're really, really excited about the future of a High Reliability Solutions business.
The first thing I’d like to start with is talking about our commitment, our commitment to Flextronics, but also our commitment to our shareholders. And that's to ensure, we have strong growth in both revenue and in operating margins and we do this in businesses that have longer product life cycles, so we can achieve the predictability that Mike talked about at the beginning of the presentation.

The HRS is three business groups; it's automotive, it's medical and it's aerospace and defense. And we have a very strong position in automotive. We're number one in both in terms of sales and but also in terms of technology. We did around $1.8 billion in revenue last year, which we believe is 6x our nearest competitor. And we're now on over 200 vehicles globally.

We're in smart, we're in connected and we're in lighting. All of these are some of the fastest growing areas within the automotive market and are growing at least twice the rate of the average automotive market, in general.

We have 300 engineers; dedicated, focused automotive engineers. So, when we combine with the FLEX platform, with the expertise that we have in consumer products, the expertise that we have in supply chain, we're actually creating a unique value proposition and a genuine incredible alternative for the automakers.

What we're seeing in the auto industry is a disaggregation of the supply chain. We're seeing the automakers start to split up the relationship that they have with the traditional Tier 1s, where they are looking to have separate partners for software, separate partners for components and separate partners through the integration. By building on the capabilities that we have across the whole of FLEX, we're in a position where we're getting real interest from all the automotive makers.

We're also in Silicon Valley, the heart of electronics. And, we have a legacy business in Flextronics for 20-plus years. In electronics, where we can take the expertise that we have from our consumer business and as you see an increase in vehicle electronics going to the car, we can bring in new innovations, we can bring in disruptions that actually create new solutions for our customers.

And we don't believe that there is anybody else that has that capability when you combine it with a designed expertise that we have in automotive, none of our competitors have that capabilities today. And we continue to build that confidence. We're out doing acquisitions and I'll talk about one a little later. We're doing investments and we're continuing to build up our design competence. So, we can provide technology to our solutions to our customers that are second to none.

In our medical business, we're in the similarly strong position. We're number one again in revenue and in technology. We have physicians in patient monitoring and diagnostics. We're in medical devices for disposables. We have a drug delivery business. We have a medical equipment business. We're in patient mobility. We have the broadest portfolio of any of our existing competitors.

But in addition to that, with the expertise that we have in FLEX, with our innovation centers, with our Lab IX, with our expertise in consumer products. We're also developing the strongest position in connected products for the radical industry. We're already manufacturing variables, implantables and remote monitoring devices for many of our customers. Additionally with 300 engineers, dedicated to medical, with expertise across the whole spectrum we're very, very confident that we can continue to grow double-digits as we move forward.

In our aerospace and defense business I think I told you last year. It's a burgeoning business. It's a developing business. So, it's a small business. But, there is no real dominant player in our industry today. And we are highly confident with the successes that we're getting in building new customer relationships, 79% win rate last year. We
are really starting to make an impact and we're also confident over time that we can become a dominant player within the aerospace and defense market.

You know, Mike and Jeannine talked about the global mega trends, so I'm not going to elaborate on that much more other than to say, what is giving is unforeseen challenges and unforeseen disruption, but equally tremendous opportunity. And you very rarely see disruption coming from within an industry. So, our access to multiple industries with multiple technologies with the multiple business models is giving us an opportunity to bring new ideas to our customers, that they're not going to see elsewhere.

I would also seeing changes in behavior of consumers, behavior of customers, competitors, businesses, regulators, and governments as those changes occur, it slows that can really develop key new solutions that can win. So, if you look at our HRS business, when you start to think about the impact of population growth creating additional pollution, congestion, chronic diseases as Jeannine referred to, that provides huge opportunity for us within the automotive business. So, where we can create, more convenient, more simple safer and cleaner solutions, we believe will be in a really strong position to continue our growth.

So, as we look at this mega trends and we think about our approach to this mega trends is really four things that we're focused on. The first is building a deep expertise within the markets that we offer it. If you take out automotive business, as an example, in the last three to four years, we've made significant changes and we've build up a competence that goes around 150 years of experiences in the automotive industry.

So, we have deep expertise in the industries that we serve. We really understand those markets. We understand the needs of those customers. And we understand where those markets are going. But, when you combine that to the expertise that we have in our innovation centers, the expertise that we have within our supply chain networks, the expertise that we have in our other segments were able to provide different solutions for anyone else we compete with. So, that ability to innovative, to disrupt, and to partner whether that's internally or externally gives us we believe strong competitive advantage.

So, we've seen the results of our efforts over the last five years by focusing on the right markets, focusing on the right technologies, expanding our geographic presence, building up our design engineering and technology capability, providing innovation, opportunities to our customer, partnering to develop supply chain networks, we've been able to sustain double-digit growth for the last five-years.

2015 was again a year of record revenues and operating margins. And we believe as we put the icing on the cake, as we continue to focus our innovation, as we leverage the expertise across the rest of the FLEX platform that's a growth rate that we can continue well into the future.

And the great thing about this business is a predictability of this business. We were working in 2013 and 2014 to generate revenue in 2016 and 2017. So, we're highly confident of the growth rates that we're going to experience over the next three years.

95% of our business in 2016 is booked. 92% of our business in 2017 is booked and even as far out as 2018, 85% of our business is booked. So, we're really, really confident we have the right solutions, that we're working on the right things, but providing the customers over right solutions and we'll be able to sustain this growth going forward.

So, in automotive, we've got a clear path for continued growth. In FY 2015, we booked over $1.8 billion in lifetime revenues that's a record for us. We had 200% increase in the business that we secured in Asia Pacific, a $600 million in lifetime awards.
We’ve developed strong collaborative relationships with software partners and we’ve been able to secure new wins with two of the top five major automakers. We’ve built $750 million in connectivity awards, that’s a 17.5% increase over our connectivity business in 2014. Our lifetime bookings in FY 2015 increased by 55% and by also working on new disruptive innovations, we’ve created or applied for 49 new patterns.

So, our technology competency is being recognized and we’re seeing a lot of interest as a result of that from not only the top OEMs, but also for many of the Tier 1s. This is just one example of the relationship we have with a key OEM customer.

If I showed you this slide three or four years ago, there may have been four or five check marks on that. As you can see today, we have a much broader relationship and a much higher level of penetration with this customer.

We’re now in connected doing head units. We have smart products where we’re providing motion controls as well as with the new acquisition mirror actuators. We’re doing clean tech wiring also DC to DC converters. And we’re starting to see new opportunities in slim display modules, but again, as a result of a partnership with the third-party.

Not only, are we in all those areas, but we’re also across just about every platform that automaker produces. So, we’re not only going deep, we’re also going broad. And this is only the start. We think there’s still more opportunity in this customer, but we’re also seeing the same opportunity exist with many other customers.

I’d just like to show you, short quote from Ford Engineering partner that helps to endorse the value that Flextronics is bringing to Ford among others. They’ve talked about our significant buying power, a vertical integration and innovation platform and our ability to create efficient product, so we can get better products and better margins for them. So, this is the recognition to [indiscernible] (124:04). And this is actually starting to give us tremendous opportunity not only with this customer, but with other customers.

We’re also leveraging the expertise that comes out of our innovation teams, our open innovation platforms and also our other segments. Here is just the multi-stated examples where we’re taking technologies which developed in the industrial business, the consumer products business, within our networks business or within our industrial business.

And we’re taking those opportunities to our customers. But, you can’t just take the technology and transfer it over without first of all recognizing that the automobile is working in a different environment, it has higher reliability considerations. It has longer product life cycles. It can potentially have a harsher environment in which to operate.

So, we have to add value to this design capability and provide an opportunity for our customers where we redesign it, we validate it, qualify it, and make it available to them, so they can enter that capability into the car that helps to reduce that type of markets and brings additional added value to our customers.

But, we’re not looking at this traditionally, we’re looking at this of how do we help to co-create new opportunities for our customers or they can create differentiation in their vehicles or can they offer – they can offer their customers something new. And we have big part of that going forward.

We also have many examples where we’re growing either through innovation, through disruption or through collaboration. I’ve already mentioned some of these. But one other thing is not only creating disruption ourselves. Well, that’s by changing our business model, of developing new design innovations but also working with the disruptors.
Whether that's Teslas of this world, Google X or UBER, we're engaging actively with them to start thinking about new solutions that we can bring to their products, to their markets to help them to succeed going forward.

We're also partnering with companies like Sharp and Panasonic in conjunction with our customers to bring new solutions whether it's for slim display modules, offer connected head units. But those partnerships by bringing those that expertise together, it provides new solutions that none of us could necessarily produce on our own, but also developing new technologies ourselves. For example, our 48-volt DC to DC converter that we developed in our design center in [indiscernible] (127:07). I'm not providing some unique technologies for a German customer where we secured this business. So now, I'd like to talk a little bit about the MCI acquisition. But before that we'd like to just run a short video to give you some insights into the process and product capabilities of MCI.


So, why MCI? Well, exactly, it's a natural fit for our motion controls business. We already do over a $100 million a year in motion controls sunroofs, the sliding doors and for tailgates. It also gives us access to new customers and new markets. They have a significant presence in China and as we look to increase our penetration in China, we can leverage the customer relationships that they develop.

We also can take with actuators and apply them to other parts of the cars. We're seeing such things as active drills and active headlights that require actuator technology. But, also gives us access to add mirror space and then we can start to consolidate as a component capabilities that we have, whether that's our smart camera technology or flexible circuits or LED lighting, but it gives us access to new customers where we can cross sell many of the other capabilities that we have.

In addition to that, as Doug mentioned, there's opportunities for actuators in many of our other markets, whether it's in our industrial markets, whether it's in our industrial applications for robotics, whether it's in the medical market for patient mobility products. We don't see just the actuators being applied for the automotive market. We see this as a way again to leverage the technology in one segment into many other segments that create significant growth potential for the whole business. So, we're really, really excited about this and we're really looking forward to bringing MCI into the Flextronics family and leveraging that across our whole business.

So, on medical, we're also clear on our path for growth. In FY 2015, we actually secured over $2 billion in lifetime revenues, $500 million of that came from transformative deals, that's where customers are looking to us to help to transform the supply chain. They are looking to us to find ways, not only to improve their margins, but to improve the efficiency of their supply chains, to generate cash they can invest in new products for the future and also to give us the responsibility for designing, develop and manufacturing their products. So, we believe that's a significant opportunity for medical as we start to see many of the medical customers reconsider the in-source model and move to other outsourcing.

We've also expanded into orthopedics. We had $50 million in new wins in orthopedics last year. This is a new vector for us, but it's a vector with the aging population that we see provides significant growth. And we're continuing to build a competency by doing small niche acquisitions to give us unique process capabilities to expand this business.

We're focused on design. Design not only coming out of our medical design centers, where we have 300 dedicated engineers, but also coming out of the other segments on our innovation centers. And with that, we've been able to develop 28 new project wins from our design capability in 2015, and we believe that's just the start of a new opportunity to do even more.
We have 40 new product launches. Again, many of those that have come from our design centers, about 60% of our revenue in medical is generated out of our design center, but some of that also comes from new partnerships that we're developing.

And in 2015, we created or we acquired, I should say, six very, very competent precision plastics and tooling companies. We actually went out and targeted who we considered to be the best in the world. And that's given us not only a new competency, not only the ability to provide a full turnkey solution to the customer, but it's giving us the new customers in Europe, in North America and in Asia. And we see that being a significant growth factor for us as we move forward also.

Here is another example, where we're working with a medical device company. Again, if we go back three or four years that have been far fewer checklist on the checklist, but now we're working from a design – from an industrialization, from a manufacturing and a logistics across many of the business segments within our medical customers.

So, we may have started doing a patient monitoring device or a drug delivery device, but now we're getting into vascular products, we're getting into orthopedics and we're providing them with connected solutions from the expertise we've been able to gain from the Flextronics offering.

Here is another endorsement for our customer, Eric Beard who is the Chairman of Cellnovo, which is a connected insulin pump. That's a new revolutionary product. It's recently come on to the market and this company just went public. Let me talk about how a qualified design a medical manufacturing expertise helps them to bring their highly innovative systems to market faster and at lower cost. Again, this is just one example, where we're getting that sort of endorsements from our customers.

Similarly to automotive, we are identifying technologies that exist in one segment or discovered as part of our innovation platform, and we're adapting and qualifying them for medical. But similarly, we're able to bring new disruptive ideas, many of these ideas won't necessarily come from a medical industry directly, but by having access to so many markets. By having expertise in many different areas, we're able to bring really smart solutions that we develop as an example here for a medical wearable punch.

And as in automotive, we're also looking to grow through innovation, through disruption and through collaboration. I mentioned the unique processing technology for orthopedics, that's a company that we work, we call Maetta, that has a unique processing for orthopedic for knee joints and for other orthopedic implements.

They also have expertise in the aerospace industry. So, that's going to give us access to new technology to help to expand our aerospace business. We're working with the company called MannKind, who just recently launched a new pulmonary device for delivering insulin. It's a first of its kind. But, we believe that having access to those disruptive customers provides great growth opportunity for the future.

We've been developing our own wireless biometric monitoring devices. Again by leveraging the expertise that we have not only within our medical device business, where we have 300 engineers to 400 engineers, but leveraging the competence across Flextronics. So, these are just some examples, where we're working together with partnerships internally, and externally to provide new innovative, disruptive solutions for the medical device customers.

We also believe in quality but our quality system is not only a key differentiator but also a major barrier to entry. And we've developed this four quality systems. That system is an electronic system provides better traceability,
gives us better device history, gives our customers securable access, and this is not available to anyone other than the customers that work with Flextronics.

We also have many registered FDA sites, site for the qualified medical devices. And this is a great value added contribution for the medical device customers. So, we’re confident that our strategy keeps us well positioned to win.

As I mentioned, we’re focused on high growth, high margin areas in automotive, in medical and in aerospace. We’re building a strong technology portfolio through acquisitions, but also through partnerships and through investments and technology. We’re leveraging the open innovation platform, to create differentiation and bring new solutions to our customers. And we’re also capitalizing on the emergence of disruptive customers and disruptive business models, to ensure that we can win well into the future. Thank you very much.

Kevin Kessel  
Vice President - Investor Relations  

Thank you, Paul. So, we’re going to go ahead now and have another 15 minute break. This time, I’ve been assured that there will be food actually in the hallway, so you won’t have to go hunting for it, should also be some caffeine out there. We’ll gather back, finish off the session with Chris Collier and some Q&A. And then we’ll head over to the reception.

[Break] (139:24 – 139:29)

Kevin Kessel  
Vice President - Investor Relations  

All right, welcome back. We’re going to finish up now, with part three where Chris Collier, our Chief Financial Officer is going to come up here and discuss our shareholder value proposition. And then we’ll go into Q&A with Mike and Chris and the rest of the executive team.

So, with that, I welcome Chris. Chris?

Christopher E. Collier  
Chief Financial Officer  

Thank you, Kevin. Good afternoon, everyone, it’s great to be here. First of all, I’d like to thank you all for attending this event today. And the company appreciates your interest and your support in Flextronics.

Throughout today, you’ve seen many presentations and you’ve had insight and dialog around the company. And this highlights there that show an evolving portfolio of products and solutions. In different way we’re engaging with our customers. It demonstrates a scale that is unmatched. It demonstrates a scope of services that is unrivaled. And it positions us today in a perfect spot as we enter the age of intelligence.

Clearly, Flextronics is engaging in a different way with its customers. And no longer are we a contract manufacturer, no longer are we, an EMS services provider. We are now our customers’ sketch to scale solution and we’re doing so in a very meaningful way. So, essentially, this different level of engagement is pushing us into a new position where we’re leading and where we’re leading into a market of one.
The company is exceptionally proud of its progress, and is actually very optimistic about its future. And those beliefs center on the dedication and execution of a 200,000 plus employees in this company that form a sound foundation from which to build and to grow the company from.

Our discussion today is going to cover several things. I’m going to talk a bit about our improved execution, however, operating with discipline. I’m going to speak about the highlights of our attractive business model. And I’m going to talk about our thoughtful discipline around our capital allocation.

And I hope at the end of our discussion today, that you step away with a new found understanding of Flextronics, its engagement model and our shareholder value proposition. We’ve been intently focused on improving our execution. We’re driving operational execution and a focus to fulfill our commitments.

We have three key commitments and those are supported by five key financial principles. These three commitments were highlighted last year and if you start on the left hand side, you’ll see that one of those commitments was that we’re going to grow our net income 5% to 10% each year and we achieved that last year in fiscal 2015 by hitting 15%.

The second commitment we had made was around establishing that we’re going to generate $3 billion to $4 billion of free cash flow for the five-year period ending our fiscal 2017. And again, we achieved that we’re well on our way with almost $2 billion of free cash flow generation in the last three years.

And the third commitment that we had made was around returning over 50% of our strong free cash flow to our shareholders. And that was achieved as well by hitting 75%. Our improving execution has many proof points and those are on the topline, in the middle and on the bottom-line as well as with our free cash flow.

You look on the left, you’ll see starting with our revenue, this depicts from fiscal 2013 to our recently completed fiscal 2015. This reflects our portfolio’s continuous evolution. It displays our HRS business growing 25% in this period. It displays our IEI business growing 19% in this period.

And what’s even more interesting is that if you actually put those together, the revenue dollars generated from those two businesses over the last two years, incremental revenue is $1.5 billion in incremental revenue.

As we move to the middle of the P&L, the adjusted operating income has grown 23% in the same period time and we have had eight consecutive quarters of improving operating margin.

Going to the bottom of the P&L, you see our adjusted EPS has grown 29% in the same period as last two years. We achieved our all-time record high of a dollar rate this past year. And again, our free cash flow generation that I talked about before on-pace, on-track to deliver our five-year commitment.

So, we’re intently focused on improving our operational execution. We’re focused around operating with accountability and we’re focused around operating with discipline. We are intently focused on driving and controlling the controllable elements of our business. And this can be evidenced in this slide here that depicts our eight quarters of SG&A expense.

As Mike talked about earlier, we’ve driven down our SG&A by 5% or roughly $40 million year-over-year. We’re now operating at around $200 million quarterly run rate. It’s interesting to note that inside of our SG&A contains the levels of investment that we put forth into new initiatives, to innovation, as well as all our R&D type of activities.
You've heard me talk about where we're investing in this business beyond the innovation and the R&D aspect. We've talked about investing in the S of SG&A around the selling efforts. We had a concentrated effort on bolstering our business development teams over the course of these last two years, and we'll continue to do so as we drive our new value proposition.

Underpinning all of this is a very strong and focused organizational effort driving efficiency and productivity gains each year. That's on the back of a very strong lean discipline, as well as global business services organization that allows us the ability to subsidize these higher levels of investments and the investments we need into driving the S.

As we move forward, we'd expect to stay in this range of SG&A spend and the only time I see us moving up off of that would be any incremental costs associated with an acquisition that comes in. So, what this does? Is this provides strong leverage for us as we grow our revenue.

Another great example of how we're operating with discipline is evidenced here. And how we've been managing our net working capital? This depicts the last three years of our net working capital and on top of that is displaying net working capital as a percentage of our revenue or percentage of our sales.

We've highlighted before. It's evidenced in our execution that we can operate our business between the range of 6% to 8% – our net working capital in the range of 6% to 8% of our sales, which actually when you convert that into cash conversion cycles that represents roughly a 25-day to 30-day cash conversion cycle. We're operating with a very high strong credit worthy customer base and we see multiple levers to continue to drive and sustain this and improve from this. Those primarily center around our inventory management.

And as Tom Linton talked earlier, in inventory day for Flextronics, we drive an improvement of one inventory day that's going to release $65 million in inventory dollars, enhancing net working capital and enhancing our cash flows. So, as we move forward, we believe, we'll be able to sustain a strong disciplined around net working capital, multiple levers to do so and multiple ways to improve to stay within the 6% to 8% range.

Now, I'd like to highlight here our disciplined around our capital investment. This is a five-year depiction of our net CapEx starting at fiscal 2011 taking into fiscal 2015. I've also denoted the average depreciation line and we spend our average annual depreciation line.

I'd like to highlight this past year, while we reflected a net CapEx of $240 million, I want you to think about it more like $347 million to reflect the incremental benefits we got from over $100 million in proceeds. So, when you take our fiscal 2015 investment, coupled with the over $500 million investment in our fiscal 2014, we pushed almost $900 million of capital investments into this company. Majority of that has been centered around are growing the capacity and capabilities to support the high-growth businesses of our HRS and IEI, as well as supporting innovation initiatives and automation.

So, as I think about Flextronics and moving forward to sustaining level of disciplined capital investment leveraging the strong physical infrastructure that exist today and the already purposely built investments over the last two years into the growing businesses. We clearly see our ability to continue to operate this company at or below the depreciation levels.

We have a strategy, a vision, and actions that are leading us to an attractive business model. As Mike talked earlier, we are focused around evolving our portfolio. And what this here depicts for you is that on the left hand side of fiscal 2010, revenue segmentation displayed here shows at roughly 19% of that revenue of fiscal 2010 was concentrated around is focused areas of emerging growth for us in industrial, automotive and medical.
This past year, fiscal 2015 we achieved 31%, we moved that mix, diversified that mix to 31% and through our purposeful actions, investments and the engagement model that we're driving, we see ourselves moving forward in the next five-years to a targeted model that captures roughly 40% of our revenues generated from those businesses.

And more importantly, that mix shift is being driven off of significant incremental revenues, not just the portfolio mix changing, but actual putting forth significant incremental revenue dollars. So, as you can see at fiscal 2010, we had $4.5 billion between those two businesses. We've almost doubled it to the $8 billion that we planned this past year. And as we think forward, that would roughly be around the $13 billion level of business, and what that provides us is with – what that does, is it provides us with a higher margin profile business and a more predictable earnings stream.

The company is completely focused around driving operating income expansion coupled with margin expansion. What I’m displaying here is our adjusted operating income for our business segments. This is something new and this is something that is going to – you'll see in another week when we file our 10-K and this increased level of transparency is going to be put forth in all our subsequent SEC filings.

So, what you see is the adjusted operating income for each of our business groups. There was a note that there is an element here that's called corporate services and other. What that captures is initiatives, actions and groups that are not directly attributable to anyone of the segments of our business. Those contain elements such as our Lab IX, other innovation activities, other corporate functions in groups and even in our momentum. So, when you think about our model as we move forward, you should be watching how we produce and execute within these businesses around driving it in increasing adjusted operating income.

And importantly, we're not moving off of the target – our adjusted operating margin ranges. In several of the presentations it's highlighted earlier and Mike alluded to earlier. Each of these segments of our business are fundamentally structured and we expect to operate within this range, HRS of 5% to 7%, IEI of 4% to 6%, INS of 3% to 4% and CTG at 2% to 3%.

But when we talk about margin as we alluded to many, many times, margin for Flextronics is fundamentally a function of the mix of our business. If you look at what we just printed last quarter and you take that revenue depiction from that quarter and you apply it to these margin profile ranges, you'd have expected the company to generate roughly 3.2% – in north of 3.2% to around 4% operating margin.

With eight consecutive quarters of improving operating margin, we hit at 3% last quarter. What that tells you is that there is still significantly more operational improvement and more earnings power within this company.

And another interesting way to think about our business, so if you go back, for this year our non-traditional businesses captured 31% of our revenue, yet they contributed over 43% of our operating profit, and that's continuing to grow. So again, that plays into a much more stable, predictable and higher margin business for Flextronics.

We are fundamentally structured to deliver earnings growth. And that is based on our target model features. Each of the guys have told you earlier today about their business prospects, their vision, their strategy, how we're engaging differently. We view our HRS business to sustain double-digit growth. We view that business to sustain in that target margin range.
You heard Doug Britt earlier talk about his ability to continue to partner, penetrate many different markets and customers and grow double-digits, and to be in that target margin range. Then you have Caroline who came up and talked to you about the broad capabilities that we have, the deep partnerships we have, how we’re engaging with new technology next generation companies and our view to operate in a stable revenue environment, which we believe is a win and sustaining that type of margin range and be very capital efficient with that business.

And you have CTG. And again, CTG for us is not about growing revenue. It's about getting a richer mix; I'd say a better mix here. And we see ourselves being able to operate that business in this 2% to 3% range. So, as you think about us driving that company forward to deliver on our earnings growth, this is the framework. And what that framework does, if you extend that out and you take their same growth features, and where we said before we’re targeting to get to 40% revenue alignment from these non-traditional businesses they’ll generate upwards of 60% of our operating profit.

A hallmark of Flextronics is its ability to generate and sustain strong free cash flow generation. If you look on the left hand side of the slide, I’m displaying our free cash flow conversion and what that is, is our free cash flow as a percentage of our net income. So to me, that’s the amount of dollars from our income statement that flow through and we capture and retain. And whether you look at us from a one year with 87% to a three-year average of 110%, or five-year at 92%, each and every period very strong free cash flow conversion.

The other part of this slide is to depict free cash flow in terms of free cash flow yield. So that is our free cash flow divided by our market capitalization. And again, whether you look at a one-year at 8% or three-year at 11% and a five-year at 10%, very strong performance by Flextronics. If you draw comparison to the S&P 500, whether you look at it from a one-year or three-year or a five-year period, we'd be in the top 25% of the S&P 500 in terms of free cash flow yield.

So, I've already said, this a couple of times, so it's worth reiterating that we are on pace, on target to achieve our $3 billion to $4 billion free cash flow generation for our fiscal year ending 2017. That is being driven by a continuously improving earnings profile coupled with discipline, around our net working capital and discipline around how we're investing in the business through our CapEx. To afford this fuel and the ability to drive balanced capital allocation as we move forward.

Our strong free cash flow is enabled by our strict execution around our return on invested capital or ROIC. As you can see here, we show fiscal 2013, 2014 and 2015 ROIC and we move from 19% up to 24%. Our improving ROIC, as Mike talked about earlier is driven off of an improving earnings efficiency model. And again, on the discipline level of investment we put forth into the business.

We're very proud of this accomplishment and this 24% is a very high watermark for us near all-time high return on invested capital. We're very thoughtful about our capital allocation. And it starts with a solid balanced capital structure.

On the left hand side, you see a reflection of our debt maturities and what you'll know is that there is no near-term debt maturities and in any one year our debt maturities aren't lower than our annual free cash flow generation. Besides that, besides having no near-term maturities, we have a low cost of debt of roughly 3% based on today's current LIBOR environment and we have an improving credit metrics backdrop.

The right hand side, you see our strong liquidity just over $3 billion, all this combined provides us with ample flexibility to grow and operate Flextronics. We are very selective and targeted about our M&A. Our M&A process is very rigorous and is concentrated on executing pursuant to these key criteria. Are we capturing target capabilities and competencies? Are we capturing and penetrating further targeted customer relationships? Does the business
model generate higher margins, longer product lifecycles, contains high barriers of entry and out of the gate in year one is EPS accretive?

On the left hand side, you'll see a snapshot of the last three years of activity in the various sizes of those types of deals. We've done seven transactions that aggregate to roughly $400 million and every single one of those has been focused around expanding our capabilities and competencies to support our HRS business. And going forward, as I've stated before, we're primarily focused on expanding those—our HRS, automotive and medical businesses with highly valuable M&A, which leads me to our recently announced MCi acquisition. So, last week, we announced this along with our year-end earnings and Paul had talked about this just before I came on stage.

So, this MCi acquisition meets our strategic and financial objectives. It hits each and every one of our key M&A criteria. It has a very compelling strategic value proposition as Paul had expanded upon. And it fulfills a solid financial framework for us.

From a financial perspective, it has strong growing revenues. We highlighted that the last 12 months was roughly €200 million revenue and that that had grown over 20%. Inside of that revenue, we are perfectly positioned across every single major OEM and 90% plus of our revenue for the next two years is already booked.

And it not only expands our ability within motion controls within the automotive group, but there is many different ways that we can proliferate the IP-technology and capability throughout many other industries that we serve.

It is a highly accretive margin profile for the company. This margin profile is well above the stated HRS margin. It's a merely accretive upon closure, which we anticipate to be in our September quarter, noting here that it's greater than 1% or $0.01 per share accretive. It's a very strong solid cash flow generator. Again, the consideration we're paying is roughly $500 million for this and we see multiple attractive ways of financing it funding this transaction.

And most importantly, as we reiterated on the call and I'd like to do so again here, this does not impact [indiscernible] (165:04) change any of our views with regards to our shareholder return commitment. [indiscernible] (165:20) unwavering shareholder return commitment. On the left hand side, you see the last five-years impact of our share repurchase program. But, we have spent over $2.1 billion recapturing 297 million shares and reducing roughly 31% of our outstanding shares.

On the top right of this slide, you see the percentage of our free cash flow that we've returned to the shareholders. This reflects in this past year again at the 75%. Over the last three years, it's 63% and if you look back over the five-year period, we returned over 75% of our free cash flow to our shareholders. And we are committed to returning over 50% of our annual free cash flow to shareholders going forward. And underpinning this is where we sit today, we see this strong intrinsic value of Flextronics compared to the current market prices that we see. So, it provides us with a conviction that we move forward with a same level of commitment.

We are intently focused on creating shareholder value. Start with the evolution of our portfolio, we are distinctly and directly improving our mix, diversifying our business, driving a balanced portfolio that's going to lead to more predictable earnings in higher margins.

We are going to fulfill our commitment to drive 5% to 10% annual net income growth. We are fundamentally structured to deliver strong sustainable free cash flow generation and we have an unwavering commitment to return over 50% of that strong free cash flow generation to our shareholders.
So, where we sit today? We’re very excited about our future. We are perfectly positioned as we entered this information edge. We are proud of our progress, we are currently in focused on our execution and we will fulfill our commitments.

And so with that, we’re going to move ourselves to a Q&A and I’m going to call Mike to join me up on stage.

QUESTION AND ANSWER SECTION

Amitabh Passi  
UBS Securities LLC

Okay. Thank you, guys. Hi, this is Amitabh Passi from UBS. I just had a question for each of you, Chris, I wanted to start with you. You show that return profile for the business approaching 24% and I’m just curious why wouldn’t you allocate more capital and reinvest in the business versus continue to buy back stock, it just seems even you have to bring your hurdle rates down, you still have so much wide gap between the costs of capital and return on capital that you probably better of reinvesting one of the business? That was a question for you. And then I continue to ask a follow-up or wait for your response?

Christopher E. Collier  
Chief Financial Officer

Let me go first and then Mike can answer that as well. What I highlighted before is that over the last two years, we’ve invested over almost $900 million in CapEx. We’re very thoughtful about that approach. We’re investing as we see fit, we put everything we can to invest into our high growth businesses with extended capacity, capability. We’ve done a lot with the innovation centers, we’ve expanded our innovation centers globally, you saw evidence last year when you came to [indiscernible] (169:25) what we’ve been doing there, we focused a lot around automation.

So, we’re putting as much capital as we see fit into the business today to generating growth, so we’re proud of having 24%. We’re going to be very mindful of how we invest and we’re going to sustain at that hurdle rate.

Michael M. McNamara  
Chief Executive Officer & Director

All right. If we see 24% return on investment [inaudible] (169:50 – 170:09).

Amitabh Passi  
UBS Securities LLC

And then I just had a quick follow-up, perhaps Mike either for you or Caroline just within the context of [indiscernible] (170:14) and what the big public providers are doing?

We’re seeing this model [indiscernible] (170:21) migrating software and then both wipe off switches and x86 base service and most of that business seems to be going to Taiwan. So, just curious what your role is more specifically within the roles of [indiscernible] (170:33) on the hardware side?

Michael M. McNamara  
Chief Executive Officer & Director
Yeah. I would definitely have Caroline answer that question, because that's a tough one. [inaudible] (170:41 – 171:05).

Caroline Dowling
President-Integrated Network Solutions

Hey, guys. It's [ph] Justin Mehndi at Audison (172:48). So, I've two questions. First, well more of a comment and then two questions – I think it's great, you're disclosing profitability by segment. I think it's going to highlight some of the strengths of your business that has been hard for investors to see before.

My question is, if you also be disclosing capital by segment, so we can get a sense for what the returns are [indiscernible] (173:15) part of your business segments, the relative strengths has been determined by their margins and their capital intensity. So, that's question one.

And then question two, Chris, you said – if your segments are all operating at their target range, the margins should be higher. So, how do we get from where we are now to where we should be? Thanks.

Christopher E. Collier
Chief Financial Officer
Thank you for the question, [ph] Justin (173:41). So, we've done a lot of work to get to the ability to provide financial statements by segments that can go into SEC file documents. We operate over 100 different locations. Many of those locations are multi-disciplinary. They're not dedicated to anyone. And it's very hard to actually earmark a lot of the distinct capital. So, I doubt very much in the near-term, you're going to see us to being able to provide you any insight into the specific capital deployment by those. What you will see is an ability to understand the level of financial earnings generation from those businesses.

Your second question was with regards to the revenue depiction that we have and how we're fundamentally focused around those core margin profiles for the business and where we sit today, our last point at 3% or something should be much higher north of that. We've been talking a lot over the last several quarters as we continue to move up, that it's on the back of improved operational execution. It's a better production planning. It's improving the yield. It's now digesting some of the more complicated technology programs and ramps that we've had over time and been able to take those lessons learned and diminish that level of inefficiency going forward.

I also think that if you think about the mix, the mix of our business, margin is always going to be fundamentally a function of the mix. And as our mix continues to change, you're going to see us moving up. So, it's a combination of the mix. It's a combination of continued operational improvement and execution.

James D. Suva
Citigroup Global Markets, Inc. (Broker)
Thank you. It's Jim Suva here from Citigroup. So, first a question for Mike, a strategy question, then a finance question for Chris. Mike on the strategy, a lot of times your past M&A activities have just kind of been a little bit of [indiscernible] (175:49) mentioned in the press release or something like that and it seems like now MCI is much bigger. Is it just the timing or cadence that I picked up on that or is it actually you're viewing that may be more
bigger acquisitions like MCi is a strategy going forward, you kind of really move the needle a little bit as things like auto sector is really strategically growing a lot, so kind of more about the size versus the timing cadence?

And then Chris for finance side, there being the CFO, if you could talk a little bit, I believe consensus is that for next year for sales and EPS. Are you comfortable with, have you looked at growing into this? I don't think I saw slide up here for your actual annual guidance for this year? Thank you.

Michael M. McNamara
Chief Executive Officer & Director

Yes. So Jim, let me address the first question. We actually put up, I wanted Chris to slide to the acquisitions that we've done in the last few years. We've been very, very selective. It's had a high bar to make it into our system. We already have an enormous amount of capability that we've already invested in over the years to go build up. So, we've been very, very selective. If you look at those transactions many of them are very small. So, when you have a small $25 million transaction, we don't announce it. We have a $100 million transaction maybe we don't announce it.

We announced this one because it was close to $500 million transaction. We wanted to make sure that we gave the transparency into the customers or into the investors, so that they can see what we were spending money on and we expected the anticipated rationale. So, I would say it's not the question of timing. It's not anything strategy based. It's just a function of the size of the business. We actually thought it was appropriate to disclose more detail than we do previously.

Christopher E. Collier
Chief Financial Officer

And then Jim with regards to not having a slide or depicting a full fiscal year, that has actually been something we've adopted over the last couple of years. We are operating the business in a very dynamic environment, very uncertain. We are focused around driving the investments. We give you a near-term outlook. We just last week provided a framework of guidance for this June quarter. We stand right behind that. We do look out to what the broad consensus is and the consensus that's built by the sell-side right now, that's out in the domain is something we're obviously very comfortable with.

We're driving our business differently. I mean we've tried to evidence many different actions and activities underway for this company to continue to drive greater operating earnings, greater margins, greater returns, we have a financial commitment that we're going to generate 5% to 10%, net in come growth per year.

And so, I think, you start building up the different pieces of information we've given you, you get behind to believe that we will fulfill our commitments you can kind of evaluate what we anticipate in fiscal 2016 to look versus a consensus.

Brian G. Alexander
Raymond James & Associates, Inc.

Hope you don't mind if I sit. It's Brian Alexander with Raymond James. So Chris, when would you expect to be hitting your target margin goals for all the segments? It looks like HRS and CTG are already well within the range. INS is slightly below the low end. And I think IEI is like a 100 basis points below the line, if I did all the math right. So, if I tie out your growth objectives and your margin objectives by segment and assume you can get there in the next two to three years, it suggest you're going to be over $27 billion in revenue, maybe almost a $1 billion in operating income, over 3.5% margin (indiscernible) (179:25) earnings. So, is that the right math and just what's the timeframe for hitting those margin targets, because obviously the earnings power is pretty substantial?
So, thanks for the question, Brian. So, the model depiction, we put up something is called the long-term model and everyone asked what—over what period of time. We tried to be more prescriptive and define that as a 20-20 type of view. Your math is pretty close. It actually gets little higher in terms of revenue. It gets right inside that range of operating margin and higher, and it generates greater than that $1 billion of operating income. And then if you drive—drive down on the discipline which we operate below the line, sustaining in that range, which we feel comfortable with, to kind of get to where your math is.

As we think about our business, we're driving actions and with regulatory on a daily basis to improve into those target margin ranges for each and every one of those businesses. I may add that we've talked about the IEI where it sits today. We've been very, very prescriptive about driving investments into broadening its selling capabilities, expanding its business development activities. It’s about land and expand. We're trying to identify many different ways to proliferate and penetrate customers in the industries and to do so, you need to expand our population.

Additionally, as we've talked about before is many different, not many, there are certain types of ramps that we've been ongoing in those businesses that where we've had some challenges, where we're not yielding at target levels, so where our operational inefficiencies creating us to not hit that mark.

But as you heard, we're focused on getting into those ranges for each of those businesses. And so, as we think about the levels of investment we take, we're putting it into that to achieve that. And over this period of time, as we just in eight quarters straight of improving operating margin, we still have more room to go. We anticipate continuously, executing to get us up into those ranges.

And again, it goes back to what we try to define as a 20-20 view that brings us all the way out to that 60% of our earnings being generated out of 40% of the revenue from the higher margin, longer product life cycle more predictable automotive, industrial, medical type of businesses.

Two good questions. The way you had cited, how we're operating with discipline around net working capital, we defined that 6% to 8% range and we see that holding true throughout this period. Obviously, we will probably track to the higher end with that mix as we have evidenced before. But, there is plenty of opportunities inside this company to drive that down further. So, it will be a disciplined play, but we're very comfortable with operating in that range.

As it relates to capital investment, we believe we can—our depreciation is $400 million plus that's a heavy level of investment. If we are just to hit our depreciation each year, we have a very well purposely built system, so we're very thoughtful and strategic about where replacing those investments. We don't believe we're disinvesting or not investing sufficiently to grow the business. So, we see ourselves, we know the offering at that level at or below our
depreciation as we move forward without hampering our ability to grow and without hampering our ability to lead in the sketch to scale role we're driving.

Michael M. McNamara  
Chief Executive Officer & Director

And I just had a couple of things that I intuitively obviously, HRS business itself while you think about being lower volume and higher mix. It's actually selling into a marketplace with very, very stable and demand patterns. You think about the automotive business how it's – the assembly lines has a rate of how those cars are going to be manufactured. So, you can actually achieve pretty reasonable inventory turns in that business segment even to the point of not hampering our overall inventory turns in any way. So, it's surprising how much efficiency we can get out of HRS in terms of inventory turns. So, let's just – one thing, keep in mind to when you think about that overall mix business.

Amit Daryanani  
RBC Capital Markets LLC

And if I could just follow, what are the assumptions you guys have through the whole process with INS would be stable or flat longer term I think. Chris, how you get comfortable with that, because when you look at some of your larger customers, you look at some of the larger players there, they probably seen revenues declined low to mid-single-digits. So, what are the offset that (indiscernible) (184:23) that you can get that number back up to stable, I saw lot of Facebook, Google and Amazon logo, (indiscernible) (184:29) the hyper scale ramps or relationships you have?

Christopher E. Collier  
Chief Financial Officer

Yeah. So, I expected to hit stable revenue this last year and we didn’t. So, I have to say that just one of the pure commitments that we really didn't make this last year and fell off at the tail end. We actually think we’ll hit it again, now what's driving that now whether we hit it or not we'll have to go through the year, but the key factors that we see is the demand for bandwidth is not going down. And talking to the carriers, we actually believe that they will have that accelerated spending in the second half of the year.

Second, we actually think China kind of turned off their spending on a dial based on internal policy within the country, which is still going reverse sooner now, because they actually have huge demand for that bandwidth. And we also have new programs, so we think that's one condition.

The other thing is we think there is new programs Caroline mentioned about 10 new logos coming on board. She also mentioned that she had the strongest bookings this last year that she has had may be forever.

So, there is new things that can actually layer on. But, I agree with your assessment that the industry itself is probably a minus 5% growth industry going forward. So, when we talk about hit and stable, we consider that to be outperforming the industry. But, that is our target, we believe we have the bookings to be able to hit that, we believe we're going to have the backend loading to be able to achieve that and we're just going to work really hard to go make that happen.

Alex M. Blanton  
Clear Harbor Asset Management LLC

It's Alex Blanton with Clear Harbor Asset Management.
Alex M. Blanton  
Clear Harbor Asset Management LLC

Q

Obviously, given a lot of thought to capital allocation, how you should do that. At what point would you consider returning cash directly to shareholders through a dividend?

Michael M. McNamara  
Chief Executive Officer & Director

A

So, I'll start with that answer and I have a couple of board members here that have an opinion on this, but I am going to. I'll start with kind of my opinion, which on average, so far is reflected which is on the board. We still trade at a – we did a $1.08 this last year. So, our trailing 12 month earnings is at $1.08, we trade at roughly $12. So, we're trading at 11 times earnings, right now.

When we think about the best use of that capital and when we think about how we can return money to the shareholders, returning money when we're trading at – market capital of 11 times earnings, I actually think is a really strong investment that suggest that, returning money through share repurchase is probably the right amount.

The minute you switch over to dividends, while it's something that we'll do at some point. And that will consider over time. But the first thing we have to do is give our some contribution to the government. And maybe – we're burdened with the 13% tax rate in California, even on long-term capital gains, but certainly for short-term gain and everything else. But so far, we just think at 11 times earnings that that's a better use and better way of returning money to the shareholders. But again, over time at some point, we'll go to a dividend, but maybe not yet.

Michael M. McNamara  
Chief Executive Officer & Director

A

So, we have time for one more question on the webcast, Kevin before you move across the hall for plenty of more Q&A.

Mark T. Delaney  
Goldman Sachs & Co.

Q

Great. Mark Delaney with Goldman Sachs. Thanks very much for the presentation. You all talked about some of the services and intelligence offerings that you've been developing and discuss how it's translating into the manufacturing win that you expect to come in the future years. Can you talk about what extent you're directly monetizing some of those software and services in terms of [indiscernible] selling some engineering services and software solutions to your customers, so what you're doing that today and then what opportunity you may have to be able to do that more so going forward?

Michael M. McNamara  
Chief Executive Officer & Director

A

Yeah. That's a good question. Thanks. We think it's going to accelerate over time. We think this is a transition that industry is going through, where the sketch to scale solutions that we offer are going to increase. And Jeannine, actually had a slide which talked about, about 3% of our business – Jeannine help me with the...
Jeannine Perchard Sargent  
President-Innovations & New Ventures

So, $3 billion of revenue was generated in FY 2015 directly from new design wins. There are over 1,000 design wins that now will be reflected over multiple years of revenue creation.

Michael M. McNamara  
Chief Executive Officer & Director

And that's up about triple where it was a couple of years ago. So, we actually think we're at the front end of this. So, we don't think this is even the sketch to scale solution model is mature. We're maturing our model, we're maturing our entire intelligence of things or intelligence thing ecosystem and we think it will build over time.

Doug talked a lot when he talked about the industrial group about all the different type of companies that we're trying to find that actually need to get into the digital economy that actually need to be electrified, that's traditionally been electrical mechanical and more and more they're becoming more electrical content. Their systems and processes internally in their operations they are not geared for that wireless connectivity.

So, we actually think it's going to be a building business over time. We think we're still on the very early front end. We're having a lot of early success with it, as evidenced by some of the projects that we showed you. And we are super excited that we've been investing in it now for many years. That's already been two or three that – first innovation in engineering slide came out with the platform for you guys like two years ago, but we've been working on it for quite a bit longer.

So, we think it's going to build, we think it's going to be very significant, we think it's going to create more TAM and we think it's going to create more margins over time. So, we're excited about the opportunity, it's already delivering value today and more and more customers are becoming more and more excited about it.

There was a comment about industrial about not hitting their target margins, and one of the reasons they're not hitting their target margins, is because they see massive TAM was the term we used, they are investing in their future. They grew 18% last year. They did over 100 new programs, last seen it was a hundred what?

Douglas Britt  
President-Industrial & Emerging Industries

185.

Michael M. McNamara  
Chief Executive Officer & Director

Thank you. 185 product launches last year, and it text the industrial guide system and as a result there were some underperformance in terms of margins. We expect a lot of that to go away this coming year.

And that investment, we actually consider to pay up, because we actually expect Doug to run a system that not only delivers 10% last year and 10% or double-digits last year and double-digits this year. We expect him to go after that TAM and have a continuous multi-year doubles-digit growth rates.

So, over time – so many ways we think it's happening, we think industrial is a great place where to happen. We think it's a huge applicability into the consumer business. We're seeing huge applicability in the Caroline's business. So, it's really expanding in a pretty significant way. So, any ways.
Christopher E. Collier  
Chief Financial Officer

Mark, I’d like to just expand just briefly on that, at the same point. So, we’re still at our infancy, it’s been over the last two years, we’ve really put forth this level of effort. You are going to see us come out with metrics and measurements that enable you all to evaluate that monetization element as we move forward.

But again, it’s at infancy, so it’s not crystallizing in any meaningful margin accretion, but it is certainly a lever that ends up and, displace itself as we move along in improving our margin profile as a company, greater accretion to the company. And we should be evidenced and we should be talking about that and you'll see proof points along that journey.

Kevin Kessel  
Vice President-Investor Relations

Okay. So, we’re all good.

Michael M. McNamara  
Chief Executive Officer & Director

So, Kevin’s going to give the closing remarks.

Kevin Kessel  
Vice President-Investor Relations

Okay. Thank you everybody for making the time today to spend with us. Overall, it was, I think it was a fantastic event. We were very glad to be able to invite you to go with us next door now to the Mercury Room, where we can continue this discussion in much more detail.

And at the same time, there are also many other Flextronics executives that have joined us today, you’ll meet them in the other rooms. And please introduce yourselves. And with that, thank you.